

BALTIMORE-WASHINGTON AIRPORT USE

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## HEARINGS

BEFORE THE

SUBCOMMITTEE ON TRANSPORTATION AND  
AERONAUTICS

OF THE

## COMMITTEE ON

## INTERSTATE AND FOREIGN COMMERCE

## HOUSE OF REPRESENTATIVES

EIGHTY-EIGHTH CONGRESS

FIRST SESSION

AUGUST 22, 27, 1963

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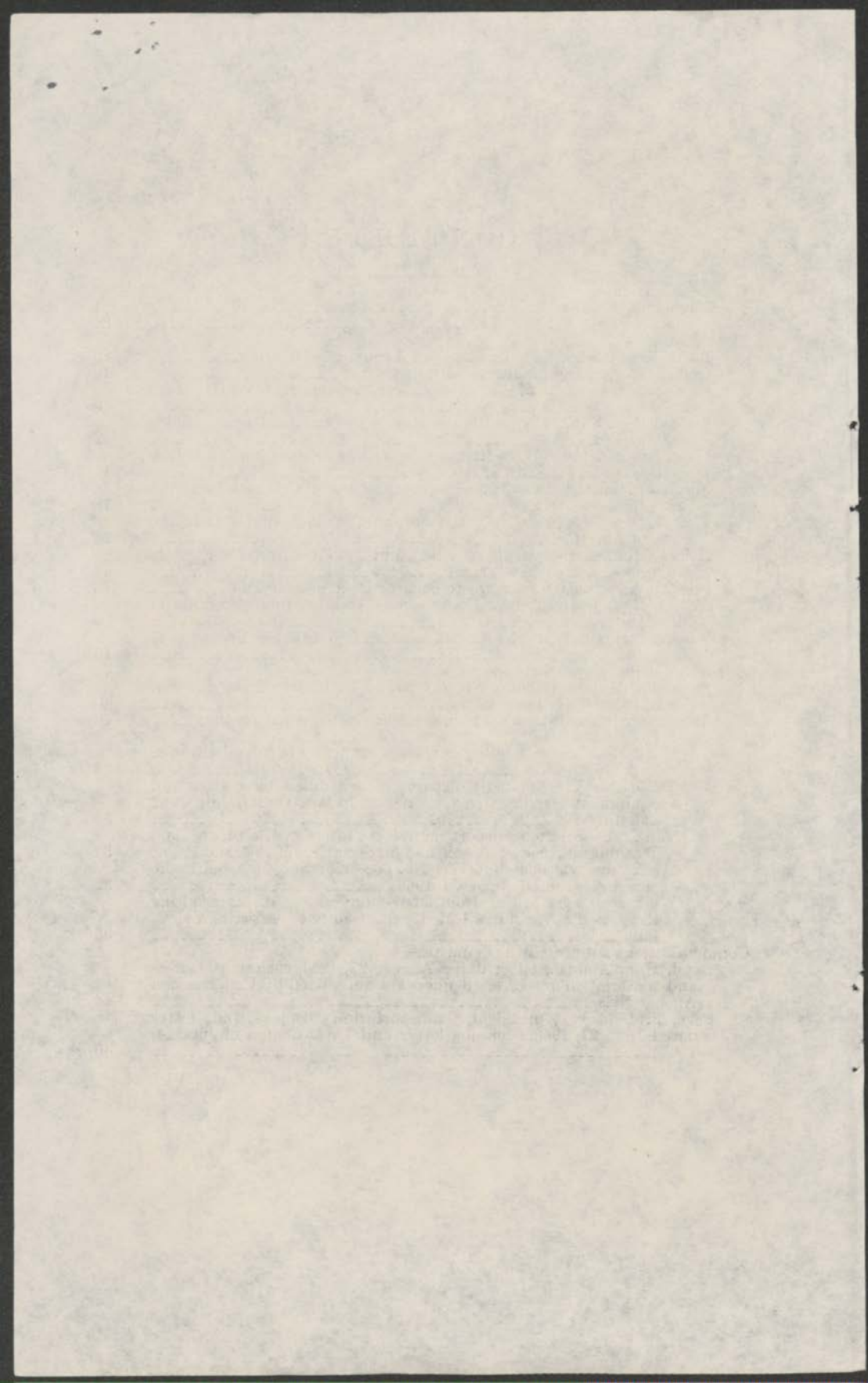
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## BALTIMORE-WASHINGTON AIRPORT USE

THURSDAY, AUGUST 22, 1963

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON TRANSPORTATION AND AERONAUTICS  
OF THE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,  
*Washington, D.C.*

The subcommittee met at 10 a.m., pursuant to call, in room 1334, Longworth Building, Hon. John Bell Williams (chairman of the subcommittee) presiding.

Mr. WILLIAMS. The committee will come to order. This morning the Subcommittee on Transportation and Aeronautics is sitting to conduct hearings on varied subjects, the first of which has to do with the Civil Aeronautics Board's actions in allegedly diverting airline traffic from Friendship Airport to Dulles International Airport.

There have been charges in the press, as I understand it, on the part of the interested persons to the effect that the action of transferring these flights from Friendship to Dulles is not in the public interest. In addition to that subject, the committee will touch upon the subject of airlines subsidy policy for the local service airlines and also action of the Civil Aeronautics Board in connection with certain routes held by Northeast Airlines in the northeastern part of the United States.

If there is no objection on the part of the subcommittee we will vary our procedure to some extent by suspending the rules so as to permit the interrogation of witnesses by Mr. Nelsen of Minnesota and Mr. Keith of Massachusetts, both of whom are members of the parent Committee on Interstate and Foreign Commerce.

The Chair hears no objection, so the rules will be suspended to that extent.

Mr. HEMPHILL. Mr. Chairman, is it possible for us to have a 5-minute rule so that the junior members of the committee might have a chance to interrogate in the short time that we have.

Mr. WILLIAMS. If there is no objection we will limit the initial interrogation to 5 minutes and make as many rounds of the committee as is necessary.

Mr. HEMPHILL. I am very grateful to you, Mr. Chairman.

Mr. WILLIAMS. You don't have any objection to permitting interrogation by Mr. Nelsen?

Mr. HEMPHILL. No, sir. I welcome the distinguished gentleman to the subcommittee with his scintillating intellect.

Mr. WILLIAMS. Our first witness this morning will be our distinguished colleague from the State of Maryland, the defender of Friendship, Mr. Friedel.

STATEMENT OF HON. SAMUEL N. FRIEDEL, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF MARYLAND

Mr. FRIEDEL. Thank you. Mr. Chairman, I want to thank you for scheduling this hearing today to give us an opportunity to clear up several points relative to airline service—or the lack of it—through Friendship International Airport. I will make my remarks brief so that the other distinguished Marylanders present can express their views on this problem.

All of colleagues on this committee will recall my statements in previous meetings concerning the complaints I have received about the lack of service from Friendship Airport to many parts of the country, as well as complaints about the misrouting of passengers to Dulles when they specifically requested service to Friendship.

This misrouting problem apparently occurred as a result of directives issued to the airlines by the Civil Aeronautics Board and the Federal Aviation Agency to the effect that Dulles is now the airport for service to "Washington area passengers."

Such instructions in the hands of airline personnel throughout the country who are not familiar with this area caused them to advise their passengers that if they wanted to go to Washington, Baltimore, or any place else in Maryland, they would have to land at Dulles Airport.

No mention was made of the fact that Dulles is 75 miles from Baltimore—or that there is no ground transportation from Dulles to Baltimore (with the exception of a cab ride at a cost of \$25 to \$30).

Naturally, these complaints were not doing the airlines any good since their passengers were dissatisfied with the inconvenience and extra cost involved, not to mention the time lost in ground transportation.

In an effort to correct this misrouting problem, I had a series of meetings with officials of four major airlines and presented these complaints to them. I am very pleased to report that as a result of these meetings, every airline official I spoke with took immediate action to correct the problem of misrouting.

I have copies here of the instructions the airlines gave their personnel very clearly explaining that Dulles is not the airport for service to people going to Baltimore and other Maryland points. As a result, complaints about misrouting have almost stopped and I want to commend the airlines for their wholehearted cooperation.

The biggest problem we have now is that of inadequate service from Friendship Airport. I know that the CAB has compared the number of flights we have now to the number we had before Dulles opened last fall, but this comparison is very misleading.

The CAB figures do not show that, as a result of their instructions to the airlines to use Dulles, Friendship lost its only flight to London. When you consider that Baltimore is the sixth largest city in the country, I think you will agree that we should have such service.

Here again, it is a pleasure to tell this subcommittee that Pan American Airlines listened to our complaints and started working on the problem immediately. Yesterday, I received the good news that Pan American will start daily service to London, Frankfurt, and



Munich from Friendship Airport on September 29 and will extend service to Paris and Rome from three flights a week to daily service.

This shows that we can obtain wholehearted cooperation from the airlines, and they want to serve Friendship, if only given the chance. I think it also proves that the airlines did not move from Friendship to Dulles voluntarily.

I will not take time to list each instance of inadequate service but I have some schedules here, which each member of the committee can review. A good example is the service from Friendship to Newark and Idlewild Airports. We have no service to La Guardia. You will see that we have a flight at 8 a.m. and the next flight is 3:20 p.m.

Gentlemen, this is a gap of 8 hours when we have no service at all to New York. This is what I mean by inadequate service. By the way, I might say that Allegheny agreed to put service from Friendship to Newark in between these hours without any subsidy and as yet they have not been given permission to fill this gap.

There is also a 6-hour gap in service to both Chicago and Detroit. We do not have any service to Miami after 5 p.m. and no return flights after 5:45 p.m. We only have one flight a day to many other large cities.

Gentlemen, there are more than 4 million people living within a 50-mile radius of Friendship Airport and less than half that number living within a radius of 50 miles of Dulles. There is no question in my mind that the majority of these people can be better served through Friendship and that they are entitled to more adequate and convenient service.

When I mentioned this point to the committee in a previous meeting, Mr. Halaby said "Are you talking about people—or airline passengers?" My answer is that in this jet age, almost every person is a potential airline passenger and should be considered as such.

I requested this hearing today because our committee handled the legislation to establish Dulles Airport, and it seems to me that most of our problems are a result of the way the CAB and the FAA interpret that law. I want to ask the Chairman of the CAB, Mr. Boyd, several questions in the hope that our subcommittee can clear up any misinterpretations of the law establishing Dulles Airport.

Mr. Chairman, as a member of this committee, I do not believe it was the intent of Congress that all airlines be required to serve the people of the Baltimore-Washington area through Dulles Airport. It has always been my understanding that we established a new airport to take care of the future traffic which could not be handled by the existing airports, Friendship and Washington National.

Now that Dulles is in operation, I know we must use it. But I feel that the decision as to which airport to use should be left to the discretion of the airlines. I do not think there is any member of this subcommittee who will say that the passengers in Washington and nearby Maryland can be served better through Dulles Airport.

And after all, airline service is supposed to be provided on the basis of "public convenience and necessity" not on the basis of what you or I or the CAB or the FAA want. If the airlines want to serve the people of Washington and nearby Maryland through Friendship Airport because it is more convenient, they should be allowed to do so.



And if the members of the committee feel that we need an amendment to the law to permit them to do this, then I am prepared to introduce such an amendment.

Mr. Chairman, this is my brief statement. We have other witnesses from Maryland, members of the Maryland delegation, and we have also the chairman of the airport board and I am very anxious to talk to Mr. Boyd.

Thank you very much.

Mr. WILLIAMS. Mr. Friedel, let me see if any members of the committee have any questions they would like to ask. Mr. Hemphill.

Mr. HEMPHILL. Thank you, Mr. Chairman. I want to salute our distinguished friend from Maryland. Certainly his advocacy of Friendship and the use of that airport has been a magnificent effort on his part. I congratulate you on that effort. You have been Friendship's strongest friend in Congress, an unwavering friend. I congratulate you.

I would like to ask a couple of questions because of things I have just heard. Before Dulles was built was there any proposal to make Friendship an international airport known as the Washington-Baltimore International Airport or anything of that nature?

Mr. FRIEDEL. Yes. When it was first built it was called the Baltimore-Washington International Airport. We had set up a customs inspector and also services for immigration at the airport. We had facilities for them.

Mr. HEMPHILL. Was there any proposal at any time to use it as the airport for the National Capital instead of building Dulles, which proposal was turned down by either Baltimore or Maryland or people having jurisdiction over Friendship Airport?

Mr. FRIEDEL. Yes; that proposal was made and considered by this committee as well as the Senate Commerce Committee. And no one that I know of from Baltimore or Maryland turned down this proposal. On the contrary, we fought to have it approved by the Congress.

Mr. HEMPHILL. I had heard that. I came on the scene after the mistake of authorizing Dulles was made, if it was a mistake. The gentleman I am sure has some ideas about that.

Mr. FRIEDEL. We all fought the proposal to build Dulles Airport. We felt that they could utilize Friendship and there was no need of spending this \$100-and-some million to build another airport.

Mr. HEMPHILL. \$110 million.

Mr. FRIEDEL. \$110 or \$111 million and probably before we get through the cost will run over \$150 million, but the point is that when Friendship was built, Washington National was overcrowded. Planes were stacked up over Washington and we couldn't get adequate service out of Friendship, even before Dulles, way before. For 9 years we were in the red.

Then when jets came in we started getting out of the red because we had the only airport that could handle jets. We are now in the black and we want to stay in the black.

I know that Dulles will eventually be needed, but it would be a mistake to sacrifice Friendship Airport to get Dulles on a paying basis.

We were in the red for 9 years. Let Dulles take their time. Congress made a mistake in voting to establish it 10 years ahead of time.

Mr. HEMPHILL. That poses another question in my mind. Is there demand for service at Friendship?

Mr. FRIEDEL. Is there a demand?

Mr. HEMPHILL. At Friendship.

Mr. FRIEDEL. Yes; there is. At Friendship wherever the airlines have given us through flights they have done very, very, very good. The BOAC used to go to London from Friendship. I understand they did very well out of Friendship. They also carried heavy cargo.

Mr. HEMPHILL. Freight flights?

Mr. FRIEDEL. Yes; freight flights out of Friendship, and they moved to Dulles. That is one of the things I want to clear up. Under the Airport Act I understand they have to give a reason when they move. I know of no reason given by BOAC.

Mr. HEMPHILL. You are saying yes or no that there is the demand—that is, the demand for passenger service and the demand for freight service—at Friendship Airport today and that the demand is not being met because of lack of service? Are you saying that?

Mr. FRIEDEL. Yes. I am saying that we could do much better if we got the proper service and the best proof in the world is what I said earlier, that Pan American is going to run daily flights to London, Paris, Rome, Munich, and Frankfurt. They now run three flights a week to Paris and Rome, but they are going to run daily flights. They wouldn't do that unless they were doing good business.

Mr. HEMPHILL. We are making a record here and I am very anxious to know whether or not, since we are sitting, I suppose, in this current jurisdiction with the CAB, a hearing of this nature, if the flights were there would the patronage be there?

Mr. FRIEDEL. The passengers would be there. It would be in the best public interest. Not only that, but a lot of people are inconvenienced by going to Dulles because the airlines have taken off some good through flights out of Friendship that have hurt the passengers.

In fact, we have had three flights I think that were transferred to Dulles and now have been transferred back to Friendship, because that is where the business is.

Mr. HEMPHILL. My 5 minutes are up. Mr. Chairman, at the end of the other members' questions I would like to explore this further.

Mr. WILLIAMS. All right. Mr. Devine.

Mr. DEVINE. Thank you, Mr. Chairman.

Mr. FRIEDEL, do you know of any specific cases where pressure has been exerted by any organization or any agency to remove flights from Friendship to Dulles?

Mr. FRIEDEL. I can't say specifically that they were pressured, but just using commonsense, when a flight that was leaving Friendship Airport was doing good and transferred to Dulles, where it would cost them a million dollars more a year, that doesn't add up as good business.

Mr. DEVINE. What airline was that?

Mr. FRIEDEL. BOAC.

Mr. DEVINE. How about any of our domestic carriers? Have they transferred from Friendship to Dulles?



Mr. FRIEDEL. Yes; there have been a few, but some have come back. Eastern Airlines went to Dulles. They transferred their jet flight out of Friendship to Miami. They tried it out at Dulles. It didn't work. They are back at Friendship and they are doing very, very well.

Mr. DEVINE. Has your volume reduced since the opening of Dulles?

Mr. FRIEDEL. Yes, sir.

Mr. DEVINE. What percentage, do you know?

Mr. FRIEDEL. Originally it was around 40 percent but it is down now to about 22 or 23 percent.

Mr. DEVINE. As you know, we have sat together on this committee through a number of hearings and a number of areas and time and again this same issue comes up that the domestic carriers, the trunk carriers, have been induced to remove themselves from Friendship to Dulles, but no one yet has come up with any specific example or any case where anyone has exerted at least direct pressure.

Mr. FRIEDEL. No; I cannot put my finger on it. I think there was pressure. However, I can't say that Mr. Boyd or Mr. Halaby in any way, shape, or form have done that, but actions speak. We have been hurt. The airlines didn't know whether Dulles was going to be good or not, but they went there. When they have to pay landing fees two and a half to three times higher than they do at Friendship and are doing well at Friendship, why would they move? I can't answer the question specifically to say that they were pressured, but for some reason or another they moved, maybe because of a misunderstanding of the ruling. That is one thing I am going to try to clarify today.

The airlines might have been under the wrong impression as a result of instructions from the CAB or FAA.

Mr. DEVINE. I think we all recognize the gentleman from Maryland has been a steadfast fighter for Friendship and brings it up on every occasion. I think your constituents recognize that.

Mr. FRIEDEL. I want to thank you because you have been very, very helpful too.

Mr. WILLIAMS. Mr. Nelsen?

Mr. NELSEN. No, I have no questions.

Mr. WILLIAMS. Mr. Hemphill.

Mr. HEMPHILL. Yes, I would like to pursue this a little further. Was Friendship Airport ever afforded the opportunity of being the international airport that Dulles is hoped to be by some optimists.

Mr. FRIEDEL. The correct designation is Friendship International Airport. However, it was never given an opportunity to function as such because we could not get the CAB and the old CAA to agree that it is the international airport for service to people of the Washington area. They have always maintained that it is for the people of Baltimore only, and they did not change this position until the jets came and they were told to utilize Friendship by the Senate Commerce Committee in its report in, I think, 1959. Friendship was prepared to provide adequate service to the people of the whole Washington-Baltimore, Md., area and we did so very efficiently until Dulles opened last November. Then the CAB went back to its old position that Friendship is not the airport for service to the people of the Washington area and that such service should be provided out of Dulles.



Therefore, I think I can say that we were not given the opportunity to provide service.

Mr. HEMPHILL. Like my distinguished friend from Ohio I have been sitting in on a good many hearings in which this matter has been belabored to some extent. As I understand the law, the FAA has no power to divert traffic from any one airport to any other airport. Isn't that true?

Mr. FRIEDEL. That is my understanding too.

Mr. HEMPHILL. Then when you say the FAA, according to your suspicion of your belief, pressured the transfer of certain flights or routings to Dulles instead of Friendship, actually the FAA doesn't have that jurisdiction, does it?

Mr. FRIEDEL. As far as routing they don't have that jurisdiction.

Mr. HEMPHILL. That is what I thought. I just want to get the thing in the right perspective. If anybody diverted the traffic then in the Government it would have been the CAB, would it not?

Mr. FRIEDEL. It would be under their jurisdiction, yes.

Mr. HEMPHILL. I just want to get the thing in the right perspective.

Mr. FRIEDEL. I think maybe everything can be cleared up because I think it is a misunderstanding.

Mr. HEMPHILL. Let us clear that up. I don't want to have any misunderstanding either because the airlines are ganged together apparently to beat the bill to make a corporation for the operation of Dulles and National, which I think was not in good faith on their part so far as the airlines are concerned, but I just want to make sure that we know who is responsible.

If anybody is responsible it would be the CAB rather than FAA?

Mr. FRIEDEL. So far as the routing, it has to be the CAB.

Mr. HEMPHILL. I want to get the FAA out of the picture. It is nice to slap everybody in sight, but I want to make sure we get the right target.

Mr. FRIEDEL. I want to say that I am very fond of Mr. Halaby of FAA and a great admirer of Mr. Boyd of CAB. I think they are both doing a wonderful job. I think it is a misunderstanding or misinterpretation of the law, and I hope we can clear this up. They are both dedicated, public-spirited citizens and they are doing a good job.

Mr. HEMPHILL. I agree with that last statement, but I do not want to include some agency that has no responsibility or authority in the field in any accusations of misunderstanding. I don't think the FAA has anything to do with it. I hope the gentleman will agree with me, because I just want to get that point clear now.

Mr. FRIEDEL. I think we have made that clear. I agree with you.

Mr. HEMPHILL. All right.

Mr. MACDONALD. Will you yield?

Mr. HEMPHILL. I would be happy to.

Mr. MACDONALD. I would just like to say that I have never seen a more tenacious, successful fight against any piece of legislation waged here in Congress during my 9½ years here, and I would like to say publicly, and I hope for any Baltimore papers here, that Mr. Friedel certainly has put on a one-man crusade within the subcommittee, and within the committee, and on the floor and I think, while perhaps not

everybody in the committee agrees with him, everybody admires, as I say, his tenacity and his success in keeping this thing open as long as it has been open.

Mr. FRIEDEL. I want to thank you very, very much for your fine contribution to these discussions.

Mr. WILLIAMS. Will the gentleman yield to me on that point?

Mr. HEMPHILL. I would be happy to yield and happy to yield for the adulation of my friend.

Mr. WILLIAMS. That is my purpose, too, and I simply want to say that Mr. Friedel is not only carrying on the long and hard battle but he is preparing to carry on a successful battle. Did you have any more questions?

Mr. HEMPHILL. I just have one more question. One of the things that has troubled me since we brought into focus this particular question on the utilization of Friendship and of Dulles is whether or not you people have ever proposed any system of rapid transportation to Friendship?

Mr. FRIEDEL. I don't know if Baltimore City proposed that, but there have been some proposals according to the press. I can assure you that even if the Congress had authorized such a transportation system it would have cost a lot less money than building Dulles.

You must realize that at Friendship Airport, as big as it is and as nice as it is, they are not using one-third of their capacity.

Mr. HEMPHILL. I am well aware of that because I have been over there and flown in and out of there, but the difficulty with Friendship and the difficulty with Dulles is apparently getting to and from the airport, the time consumed. It is difficult, and it is almost to the point of irritation to get to either place from Washington. I wonder if the gentleman from Maryland has considered that in his contemplation and utilization of Friendship.

Mr. FRIEDEL. It would be a big undertaking for Baltimore City to try to work out a rapid transit system from Washington to Friendship and from Baltimore to Friendship, both, but if the Government had done that, we could have had the rapid transit and saved a lot of money without building Dulles Airport.

Mr. HEMPHILL. I thank you very much for your patience with my questions. I again salute you for a magnificent battle and victory over the airport corporation bill.

Mr. FRIEDEL. Thank you.

Mr. WILLIAMS. Any further questions? Mr. Sibal?

Mr. SIBAL. No questions, Mr. Chairman.

Mr. WILLIAMS. I don't have any questions at this point. Thank you very much.

Mr. FRIEDEL. Thank you, Mr. Chairman.

Mr. WILLIAMS. I have a statement for inclusion in the record, a statement of the Honorable George H. Fallon, a Member of Congress from the State of Maryland.

(The statement referred to follows:)

STATEMENT OF HON. GEORGE H. FALLON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Since Dulles International Airport was opened last October, Friendship International Airport has suffered a decline in passenger traffic. Approximately 38 daily jet flights have been transferred to Dulles from Friendship. When Dulles



opened last year, Friendship had 82 jet flights. By August 1 it had 44. The Baltimore Association of Commerce has estimated that Baltimore is losing more than \$1,000 per day as a result of unfair competition from Dulles. The economy of Friendship Airport is being undermined as a result of Dulles being pushed by the Federal Government as the official Washington area airport for jet services. I deplore this Government interference in the local economy.

Friendship Airport can compete with Dulles if it does not have to compete with the Federal Government as well. I note with pleasure that some flights have been brought back to Friendship from Dulles after it has become plain that Friendship is more convenient.

Baltimore has expected, of course, to lose some traffic ever since the multi-million-dollar operation in the fields of Virginia was authorized. But I am quite convinced that Dulles has been handed an unfair competitive advantage by the mere fact that it is operated by the Federal Aviation Agency, the Agency that regulates air commerce.

As I said in my statement before this committee last year, "A regulatory agency should not have the responsibility of developing the facilities which it is designed to regulate \* \* \* the city of Baltimore, which owns and operates Friendship Airport, cannot condone preferential treatment to Dulles International on the basis that the Federal Government owns and manages the latter."

For this reason I cannot support the provisions of H.R. 826 which leaves the National Capital Airports Corporation subject to the direction of the Administrator of the Federal Aviation Agency. This bill does not solve the conflict of interest which has arisen. On the one hand, the FAA is interested in making Dulles pay. On the other hand, it is adopting regulations that affect not only Dulles, but its competitor—Friendship.

As a member of the Maryland delegation, I feel that administrative responsibilities for the operation of Dulles International Airport and Washington National Airport should be transferred from the FAA to a Washington Airports Board as specified in H.R. 2081 introduced by my fellow Congressman, Mr. Friedel.

The people of Baltimore have had the foresight to provide a jet age airport convenient to both Baltimore and Washington. Its service should be allowed to develop unimpeded by regulatory bias.

Mr. WILLIAMS. Our next witness is our colleague, Mr. Carlton Sickles, representing, of course, the State of Maryland.

Mr. FRIEDEL (presiding). I welcome my colleague, the Congressman at large from Maryland. It is always a pleasure to have you appear before our committee and you may proceed.

#### STATEMENT OF HON. CARLTON R. SICKLES, A CONGRESSMAN AT LARGE FROM THE STATE OF MARYLAND

Mr. SICKLES. For the record, my name is Carlton Sickles and I am the Representative at large from the State of Maryland. Of course, as a freshman I am a newcomer to this body and certainly don't have the experience that you have and certainly as directly as you have with the problem.

I do want to express first my personal support for the position that you have taken as well as other Representatives of our State and also relate to you, which I am sure you know personally, but to the members of the subcommittee, the real concern which is expressed by so many of our citizens, to the point that this is another one of those "hot potatoes" in political parlance.

My concern with this, and I try to give this a broad view as you give most of the problems up here, is that for years in the State legislature I had been one of those who felt that we should anticipate our needs, that we should provide capital investment, particularly with respect to land, so that you would buy land when it was at an



appropriate price rather than wait for the time when the price was way out of line, and even sometimes construct your capital improvements at a time when it would be less costly to make such a construction. I think here what we have ended up with is the problem that can result when you do not anticipate your needs, so that although we have a beautiful edifice known as Dulles out in Virginia, and certainly one today and in a not too distant future it will serve a very real purpose and will be much needed in the community, because we are attempting to utilize it as much as possible now we have effected the financial operation of Friendship Airport. And, more important than that, we have created a situation where the passengers do not have one primary airport in the area, so that from the point of view of passenger convenience he never knows when he leaves one airport whether he should drive to that airport or not, because he doesn't know which airport he is to return to.

This is the problem we face today. There is nothing we can do to get rid of Dulles and nobody would want to, but it seems to me the heart of the problem is that we are trying to justify its existence so soon, and, therefore, either directly or indirectly, encouraging passenger service at Dulles to the detriment of Friendship and to the inconvenience of the passengers, so it seems to me that we in the community and the appropriate Government officials have to determine which of these two major airports should be preferred and intentionally hold back the operation of the other airport until there is sufficient population to justify the use of three airports in this area, so that the citizens who are using the airports would have reasonable expectation that they will come back to the same airport and those of us who have the problem of going out and meeting passengers will have a reasonable idea of at which airport they are going to land.

Just exactly what the solution is and how this can be handled, of course, is left kind of dangling in air, but it does seem to me, and, of course, I must admit a bit of personal prejudice, we can make a good case for Friendship as being the primary large airport for a while until such time as there is sufficient passenger service so that there would be many flights in and out of all three airports because of the population volume.

I think if we had an origin and destination study conducted by an impartial group we could show that most of the people and most of the commodities to be shipped are from an area which is closer to Friendship.

After all, Friendship is serving at this point two major cities, not only Washington, but Baltimore, which is, I believe, still the sixth largest city in the country. What I am saying is that the problem is here and unless we come to an intentional solution to the problem, then all that these meetings and these hearings will amount to will be shouting contests as to who can shout the next person as to which airport should be helped and which one should be considered the prime airport for the area.

At this point, I think it is admitted that Dulles is pretty much of a mausoleum out there. It is not being used anywhere near its capacity, and if we could just face up to the fact that it is there too soon, that there will come a time when it is needed and it will be used to capacity,

and not try to create the impression that it is needed now, then I think we could be looking toward the solution of this problem.

I thank you very much, Mr. Chairman.

Mr. FRIEDEL. Thank you, Congressman Sickles.

Any questions?

Mr. MACDONALD. No questions.

Mr. DEVINE. No questions.

Mr. FRIEDEL. Thank you very much, sir.

Now it is a great pleasure to introduce my colleague, Congressman Long of Maryland, for his statement. You may proceed.

**STATEMENT OF HON. CLARENCE D. LONG, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF MARYLAND**

Mr. LONG. Thank you, Mr. Chairman. Before I begin I want to pay tribute to the tireless work that my colleague, Sam Friedel, has done to try to build up Friendship Airport, Maryland's pride, and that we are all very much indebted to him for the leadership which he has taken here.

I am Congressman Long from the Second District of Maryland, which is Baltimore, Carroll, and Harford Counties, where I would say a great portion of the executives of various Maryland companies live, who would be inclined to use Friendship Airport. I am appearing before you today to urge that the Civil Aeronautics Board take voluntary action for improvement of service at Friendship International Airport rather than force Baltimore and the CAB into a long and costly legal battle. Baltimore will take every step within its power to improve Friendship service until it is successful in this endeavor.

There is no question that Friendship needs better schedules on more routes to more places and that Friendship will ultimately get the improved service which it justifiably seeks.

I have been a frequent user of planes myself and I myself have experienced this endless frustration of trying to use Baltimore Friendship Airport, and I am sure that every other person has had the same sense of frustration that I have had.

I urge the CAB to give this matter its immediate and favorable attention in order to avoid the interminable delays which result from formal adequacy of service hearings before the Board.

Friendship especially needs improved routes and schedules to New York, Newark, and Detroit. Mr. Charles P. Crane, the chairman of the Baltimore Airport Board, is present today and will give more details about Friendship's requirements.

I would like to remind this committee and the CAB that the 1959 adequacy of service case brought by Baltimore before the CAB was successful in improving routes and schedules at Friendship after the CAB investigation found that service at Friendship then was indeed inadequate.

In the 4 years since Friendship's routes and schedules have improved somewhat, but they have not kept pace with the growth of passenger and freight potential in the Baltimore metropolitan area.

Undoubtedly an adequacy of service investigation held today would have to report findings similar to those of 1959. Moreover, vigilant



Baltimore aviation interests have indicated that if necessary they will appeal to the courts against any CAB action which is unfavorable to Friendship and the area it serves.

Therefore, it is clear that the best way for the CAB to settle the matter of adequacy of service at Friendship is by swift voluntary action.

Thank you.

Mr. FRIEDEL. Thank you very much.

Any questions?

Mr. MACDONALD. No questions.

Mr. DEVINE. No questions.

Mr. FRIEDEL. Thank you, Mr. Long.

Is there anyone here representing Congressman Mathias? I repeat again, is there anyone here representing Congressman Mathias? All right. We have with us Mr. Jay Price, representing Senator Beall. Mr. Price?

#### STATEMENT OF JAY PRICE, LEGISLATIVE ASSISTANT TO SENATOR BEALL OF MARYLAND

Mr. PRICE. Mr. Chairman, I am Jay Price, legislative assistant to Senator Beall. The Senator has asked me to express his appreciation for you making it possible to have his statement read into the record today.

Just as you are dealing with air transportation this morning, the Senate Commerce Committee is faced with the problem of the railroads and it was necessary for Senator Beall to be present there.

(Senator Beall's statement is as follows:)

Mr. PRICE (for Mr. BEALL). Mr. Chairman, I welcome this opportunity to appear before your subcommittee regarding the use of Dulles and Friendship Airports. It is important, I think, that Congress be given a full understanding of the efforts and activities of the Federal Government to develop and expand the Dulles International Airport at the expense of the Friendship International Airport.

Hardly a week has gone by during the past year when I have not received correspondence complaining about the reduction of service to and from Friendship Airport. These complaints are coming from businesses, as well as individuals who make extensive use of the airlines. The opening of Dulles was followed almost immediately by a reduction in service at Friendship.

In the transportation field, we speak of "public convenience and necessity." I submit, Mr. Chairman, that the diversion of traffic from Friendship to Dulles has been unnecessary and certainly inconsistent with public convenience.

When Dulles was first conceived, my colleagues and I warned that this new facility was unnecessary and would represent an unwarranted use of the taxpayers' money. I do not derive any satisfaction out of the fact that our warnings were justified.

I do not gain any particular pleasure in coming before this subcommittee to report that Dulles is today an unnecessary facility. At the same time, Mr. Chairman, I must express my displeasure and grave concern that the development of Dulles is being brought about



by an unnatural and unjustified diversion of traffic from Friendship International Airport. The evidence is becoming all too clear that the Federal Government has played a part in this diversion.

I shall leave the details to other witnesses, and I am confident that the hearing record will disclose that Friendship is not being permitted to compete equitably with Dulles. Mr. Chairman, Maryland is not asking for any special treatment or preference in this case. We ask only that Friendship International Airport be permitted to compete with Dulles on the open market and without unjustified interference by Federal regulatory agencies.

Earlier this year I had an opportunity to present to this subcommittee a statement in support of legislation to establish a Washington Airports Board. I continue to believe that the Friendship-Dulles problem can be solved only after the administration of the Washington airports is put into the hands of an independent board which does not also exercise regulatory functions.

In an atmosphere where each airport would operate without preference from the Government, I believe that both facilities would prosper so long as they serve the public convenience and necessity.

If Dulles can survive only by requiring diversion of traffic from other airports, then Congress has made a mistake, and we ought to recognize it. If, on the other hand, Dulles is a necessary facility, it should develop through normal means and without pirating its services from other areas.

Mr. Chairman, I am grateful to you and the subcommittee for scheduling these hearings. I know that your subcommittee will give this matter serious consideration and will act in a manner consistent with the interests of the traveling public.

Thank you, Mr. Chairman.

Mr. WILLIAMS. Thank you, Mr. Price. Any questions?

Mr. MACDONALD. No questions.

Mr. DEVINE. Are you authorized to speak for the Senator in addition to the statement that you have made?

Mr. PRICE. Yes, sir.

Mr. DEVINE. When you speak of diversion of traffic from Friendship to Dulles, by whom?

Mr. PRICE. Mr. Devine, I listened to the questioning of Mr. Friedel regarding any proof that might be existing that any Federal agency had, in fact, coerced or influenced the diversion of traffic.

We have no such proof that any particular action has resulted in this diversion. I think it might have been well if we brought over some of the mail that we have been receiving from individuals who have reported to us in detail of the instructions and of the information they have been given upon trying to reach Friendship Airport from places out in the West, for instance, the varying instructions that they have been given, "Oh, we don't fly into Friendship," or "We suggest that you take the trip that goes into Dulles."

This is secondhand evidence, we must admit. It may not be any evidence at all. But, nevertheless, we have received a volume of mail and this volume of mail from individuals who are just members of the traveling public seems to indicate that some influence is being brought to bear to encourage people to fly into Dulles rather than Friendship.

Mr. HEMPHILL. Will the gentlemen yield to me at that point?

Mr. DEVINE. Yes.

Mr. HEMPHILL. The thing that concerns me as a member of this committee is we sit here giving an opportunity to be heard to those who have this problem, and we are sympathetic to the problem, but it occurs to me it is time we had some proof.

We have been sitting here listening to this accusation that somebody has made accusation, saying it is true, that Dulles is favored over Friendship.

If it is true, let us have the proof. I don't think the fact that somebody said he didn't fly into Friendship or could get a better flight into Dulles is proof of the fact that any agency of the United States has done anything irregular.

If it has done it, let us have the proof, and if it hasn't, then let us admit you can't prove it.

Mr. PRICE. If I might comment for just a moment—

Mr. HEMPHILL. Certainly you may comment. That is the reason I commented.

Mr. PRICE. I personally don't believe that any irregular action would be necessary for the Federal Government to bring influence to bear on this. The fact that the agencies controlling the Dulles Airport are also the regulatory agencies over the airlines which are serving Dulles and Friendship Airports is sufficiently enough, I think, to have some influence on the decisions that are going to be made by the individual airlines.

Mr. MACDONALD. Would you yield?

Mr. HEMPHILL. Mr. Devine has the floor.

Mr. DEVINE. I yield.

Mr. MACDONALD. By that you mean regulatory agencies make the awards of the routes that are flown by the airlines?

Mr. PRICE. Well, any decision that may come before the regulatory agency. Whether it be certification of new routes or any other activity involving the individual airlines, they come up with a decision.

These decisions, I think, in the past have all been based on good hearing records, but the fact is that an individual airline that is going before the Board would like to go before the Board, I think, in a desirable and peaceful atmosphere.

I think if I were running an individual airline that the Board would be very happy to hear that, "Well, you are having trouble with Dulles. We will put some flights into Dulles," and ask for certification in that respect.

I don't think it requires any irregular actions at all by the Board, and Senator Beall, and speaking through him, does not intend to imply irregularity of actions, but rather just the existence of a regulatory agency which also has control of the airports.

Mr. DEVINE. Among the complaints that the Senator has received have there been any complaints from any of the carriers to your knowledge?

Mr. PRICE. I don't know, sir. I don't know. Most of the complaints that I am familiar with have been coming from members of the traveling public, businesses, individuals, but I don't know.



Mr. DEVINE. When you say that you know of no irregularities as far as pressure by any existing regulatory agencies, do you mean to infer that perhaps if the carriers did not comply with a deviation from Friendship to Dulles there might be reprisals?

Mr. PRICE. No, I don't. I am sure that the regulatory agencies have and will continue to act in the most objective fashion. All I am saying is that the atmosphere which is created by a regulatory agency having control both over the airport in question and the airlines which will or will not fly into that airport creates an atmosphere where influence is just present without any irregularities at all. No implication against either agency, either.

Mr. DEVINE. That is all.

Mr. FRIEDEL. Mr. Sibal?

Mr. SIBAL. Has your office been in touch with the airlines to inquire as to whether or not any pressure has been brought upon them?

Mr. PRICE. I believe the Senator has personally spoken even with representatives of the airlines. I am not aware of what the exchange has been between the Senator and them.

Mr. SIBAL. You don't know if that has been done and what the results have been?

Mr. PRICE. No, sir. I don't.

Mr. SIBAL. Of course, that is the kind of thing that we have to have. With respect to this allegation that you think, without in any way violating the basic approach which their position requires, that pressure has been brought to bear, we can't deal with things like that.

You understand that. I gather from your testimony that you are a lawyer, and we can't possibly make any decisions based on things which we don't know, so it would seem to me if the airlines have been under pressure, then the thing to find out is whether they have been or not, and apparently there is no evidence before us this morning that they have.

Mr. PRICE. I would certainly hope that you don't find evidence that the airlines have been under direct pressure. It would not be a very nice thing to find out about our regulatory agencies.

Senator Beall has not made any such implications.

Mr. SIBAL. I don't see what we can do unless we have some evidence. Thank you.

Mr. HEMPHILL. I would just like to make one observation. We used to have a saying in law school that if the facts are with you deal with the facts and if the law is with you deal with the law, and if neither is with you just beat on the table. That is about what has happened here.

I have been listening with a great deal of patience to the accusations that there is maybe some influence, or some climate or, some atmosphere, and this week we tried to enact a piece of legislation that would go a long way toward getting rid of the problems which apparently you people from Maryland suspect, if I am using the right word.

I am like Mr. Sibal. I would like some proof. If something is wrong let us have it, and if it is not wrong let us quit talking about it. That is my thinking, and I know the distinguished gentleman

that you represent, having the brilliant staff that I am sure he has and all the Senators have, if there is something wrong, could ferret it out.

We would certainly like to have some facts or some law for a change.

Thank you.

Mr. FRIEDEL. Thank you.

Mr. PRICE. Thank you.

Mr. FRIEDEL. Our next witness will be Ellery B. Woodworth, representing Senator Daniel B. Brewster.

**STATEMENT OF ELLERY B. WOODWORTH, LEGISLATIVE ASSISTANT  
TO SENATOR BREWSTER OF MARYLAND**

Mr. WOODWORTH. Thank you.

My name is Ellery Woodworth. I am legislative assistant to Senator Brewster, junior Senator from Maryland, and I would like to take this opportunity to explain that the Senator is unable to be here this morning, regrets that fact very much, and has asked me to make a statement on his behalf, to thank the committee for the opportunity to be heard here this morning and for the opportunity to make a statement for the record of his views of the present Friendship-Dulles Airport controversy, and also to pay tribute to Congressman Friedel, as other men testifying here this morning have already done, for the tremendous effort which he has made on behalf of our own Friendship Airport outside of Baltimore.

As you know, the Federal Aviation Agency now operates Washington National and Dulles International Airports at Chantilly, Va. The primary function of the regulatory agencies in this field is the function of rulemaking, the enforcement of air safety regulations, the maintenance of proper air traffic control and air navigational facilities, the regulation of the economic aspects of domestic and international aviation, the establishment and development of domestic and international aviation, and the adjudication of the various issues which may arise in connection with those responsibilities.

The role of the regulatory agencies as operators of Washington National and Dulles Airports is in my belief in direct conflict with these primary functions. If these regulatory agencies are to be held above reproach and merit the confidence of the flying public, it is imperative that they be relieved of duties which are in direct conflict with their regulatory and air safety responsibilities.

In the interest of public convenience and necessity, in order that both the airlines and air passengers will receive equitable consideration and not be coerced into using Dulles Airport, it is also necessary that the operation of Washington National and Dulles Airports be removed from the jurisdiction of the FAA.

There are two separate serious problems which exist under present laws establishing the FAA as the operator of Washington National Airport and of Dulles International Airport.

For more than a decade air traffic has been operating at an absolute maximum peak at Washington National Airport and in a manner



which the FAA does not tolerate, in my belief, at other airports in the United States.

Should the operation of Washington National Airport be removed from the jurisdiction of the FAA it would view air operations there with a more realistic perspective and thereby increase the safety factor and allow for greater convenience for air passengers using that terminal.

Every Member of Congress is well aware that unrealistic delays through stacking time and delayed approach time are routine procedure regarding flights destined for or originating out of Washington National Airport.

It is my opinion that many of the flights certified to Washington National and Dulles Airports in the interest of both safety and convenience would have been diverted to Friendship International Airport were it not for the fact that the FAA has endeavored to achieve maximum air traffic for these Washington area fields.

It is my contention that the FAA should exercise its primary responsibility of enforcing air safety regulations and not be burdened with the housekeeping operational duties in connection with Washington National and Dulles Airports.

It is my further contention that Members of Congress should look at the degree to which the power of the FAA and of the CAB over other matters in the airline field have influenced airlines to make use of Dulles International Airport.

The present situation obviously places the airlines in an unfair and untenable position, for these airlines, in performing their normal transportation services, are under the daily scrutiny and control of the FAA and the CAB.

They are greatly dependent on the rulings of these two agencies.

By looking at any map of Maryland and Virginia you will see that Friendship International Airport is in the center of the vast air transportation market made up by the Washington-Baltimore metropolitan areas.

The airlines in planning their flights through normal business judgment and economic considerations want to be as close as possible to the center of any populated area.

If you use Friendship as the center of a circle and extend the circle's radius 50 miles you will see that two thriving metropolitan areas, Washington and Baltimore, and at least 4 million people are within this area.

On the other hand, if you drew a similar circle with a 50-mile radius around Dulles Airport it could easily be seen that less than one-third of the number of people reside within that area and that the great bulk of this one-third, residing roughly in a segment resembling a slice of pie, extending from Dulles to Washington, also are within the 50-mile radius of Friendship Airport.

I think the Members of Congress should do everything possible to see that the airlines are not intimidated, either directly or indirectly, into using an airport which has already considerable economic liabilities.

I think Congress should keep alert to this situation, both with regard to the question of public convenience and necessity and to

tactics which may be employed or may have been employed by the FAA and the CAB in order to seek tenants and service for the new airport at Dulles.

Any decision by the Federal Aviation Agency or CAB officials to force the airlines to use Dulles as their sole terminal for Washington jet traffic would be, in my opinion, contrary to the authority granted to these agencies by Congress.

As Members of Congress we must recognize that the airlines are in the untenable position of not being able to speak out boldly against the stated positions of the CAB and the FAA on the use of Chantilly and Washington National Airports with relationship to the use of Friendship Airport.

It is our responsibility to see that the intent of the Civil Aeronautics Act is not abused by influencing in any respect these airlines to become the unwilling tenants of an isolated high-rent airport.

As a step in this direction, I urge the members of this subcommittee to consider the removal of the FAA from the airport-operating business, an action which can be accomplished expeditiously, and without disrupting present aviation activities in the Washington area, through legislative action.

Mr. Chairman, this concludes the Senator's statement.

Mr. FRIEDEL. Thank you. Any questions?

Mr. MACDONALD. No.

Mr. FRIEDEL. Thank you.

Mr. WILLIAMS. In behalf of our colleague, the Honorable Charles Mathias from the State of Maryland, who, I understand, desires to submit a statement, I think the proper place for inclusion of your statement would be immediately preceding Mr. Crane's testimony, in line with the testimony of the other members of the Maryland delegation. Would that be satisfactory?

#### STATEMENT OF HON. CHARLES MATHIAS, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. MATHIAS. Mr. Chairman, I appreciate it very much, and I do want to associate myself with the views of the other distinguished members of the Maryland delegation who have already testified. I will submit the statement for inclusion at the point the chairman has indicated.

(The material to be furnished follows:)

#### STATEMENT OF HON. CHARLES MCC. MATHIAS, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. Chairman and members of the committee, I appreciate the courtesy of the committee in permitting me to appear before you today, to say a few words on the subject of achieving the maximum potential use of Friendship International Airport.

The details of the problems affecting Friendship have been described by my distinguished colleagues of the Maryland delegation in the Congress and I associate myself with their remarks without repeating them. I am sure that Mr. Crane's statement will also bring the Friendship situation into proper focus.

I do, however, want to say a few words about the conflict of interest of which the Federal Government seems guilty at this time. Dulles Airport and Washington National Airport are federally owned and federally operated under the Fed-



eral Aviation Agency. Friendship International Airport is a municipal facility operated by the city of Baltimore under the leadership of local citizens who are dedicating their time and talents to making it more valuable as a public service facility regulated by the Civil Aeronautics Board.

The Federal Government, through the Federal Aviation Agency and the Civil Aeronautics Board, also has regulatory powers over the airlines delegated by the Congress. The wishes of the Federal Government carry great weight with the airlines who may not be able to distinguish between the role of the Federal Government as regulator and the Federal Government as the owner of airport facilities. Let me add, however, that this dual role was not sought by the current officials of the regulatory bodies and that the result of this conflict of interest is certainly unintentional.

Under these circumstances it is to be hoped that the Civil Aeronautics Board and the Federal Aviation Agency will recognize that this dual role prejudices the position of Friendship Airport as a center for air travel and handicaps the traveling public which seeks service at Friendship.

When this danger is recognized, the good offices of this committee should be used to persuade the Civil Aeronautics Board to grant the reasonable requests of the Friendship authorities.

Mr. FRIEDEL (presiding). Our next witness will be Mr. Charles Crane, chairman of the airport board, one of our most dedicated public officials. He spent a lot of time and effort and his money on keeping Friendship alive. Mr. Crane?

#### STATEMENT OF CHARLES CRANE, CHAIRMAN, AIRPORT BOARD

Mr. CRANE. Thank you very much indeed, Mr. Chairman and gentlemen, for the opportunity to be here and for those kind words, Mr. Friedel, that you have seen fit to express.

I have a prepared statement here which I think and hope deals with the situation on a factual rather than a statistical basis. It does not go extensively into the question of the occult influence of the Civil Aeronautics Board in conjunction with the Federal Aviation Agency.

I am sorry that Mr. Hemphill has left the room because I have been impressed on previous occasions in appearing before this committee with the penetrating quality of his questions on this particular point and I would like to refresh his memory and that of the other members of the subcommittee of testimony that I gave last year in which I submitted the only quasi-substantial evidence of undue interest on the part of these aviation agencies to transfer flights from Friendship to Dulles, and those were two letters which had been written by the General Counsel of the Federal Aviation Agency to the Chairman of the Civil Aeronautics Board in which the General Counsel of the FAA protested eloquently and vigorously against permitting Braniff Airlines and Eastern Airlines to make permanent connections for the supplying of jet service.

He said, among other things, in his letter that Dulles had been set up as the airport of service for the National Capital, and while he didn't mind temporary service being supplied by those two airlines at Friendship International Airport, he protested vigorously against the permanent allocation of Friendship as their point of service.

You will find one of those letters on page 78 of the hearings before this honorable subcommittee which took place in March of 1963 and if there would be any difficulty in finding that I will be very glad indeed to supply copies of it.

I know, as has been brought out on previous occasions and on this occasion, that we are unable to prove to you conclusively by direct evidence that there has been a sympathetic association of interest between these two regulatory agencies and the only thing that I can say to you today, which may not be controlling on your thoughts, is this: that the Civil Aeronautics Board holds the power of life and death, the power of economic life and death, over these airlines, and it would take a very hardy operator of an airline to ignore their wishes if the wishes had to do with vitalizing an airport that has been built at great expense to the Government and which is not an intermediate airport between these two great cities, and which violates in that sense the present philosophy of the FAA and CAB that airports should be regional and that one airport as far as possible should supply the service for a region.

In presenting this statement I would like to say that I regret so many frequent references to the words "Friendship Airport."

I am not here as a representative of that airport. It is true that I am chairman of that airport board, but I am here asking for the understanding and assistance of this committee in getting adequate air service for some 2 to 3 million people in the State of Maryland, in the northern section of the District of Columbia, in the southern section of Pennsylvania, and in Delaware, and it is for that purpose and not merely to exploit the economic advantages over Dulles of the Friendship Airport that I have taken the liberty of coming here and speaking to you today.

I shall not attempt to present or to burden you with the great mass of statistical information such as are sometimes used in cases before the Civil Aeronautics Board. My purpose is to take whatever legitimate steps are open to us and are necessary to achieve reasonable and economical air service for the several millions of people and the thousands of business and industrial concerns in the area which is and can be served more conveniently by Friendship International Airport than any other nearby airport.

Another question which Mr. Hemphill, I believe, asked, or one of the members of the subcommittee asked, was about the beginning and the initial functions of that airport. When it was dedicated by President Truman in 1950 it was specifically stated that that airport, Friendship Airport, with its long jet runway, which had to wait 9 years before its utilization, was designed to be the auxiliary airport for the National Capital, as well as for Baltimore, and also, and because it had the only jet facilities, to act as a jet airport for the National Capital, and that airport did for 3 years handle the entire commercial jet traffic for the National Capital and for Maryland.

Mr. WILLIAMS. Mr. Crane, may I interrupt you at that point?

Mr. CRANE. Mr. Chairman?

Mr. WILLIAMS. Was there any consultation with the officials of the city of Washington, the Commissioners or the Federal Aviation Agency, with regard to the location of that airport so as to make it a regional airport as between the two cities?

Mr. CRANE. Mr. Chairman, I was appointed chairman of the airport board in 1960, but I have been told by other members of the board that it was specifically located intermediate to Baltimore and Washington for the specific purpose of facilitating service to both cities.



Mr. WILLIAMS. The reason I ask the question is, who made that determination? I would presume that the city of Baltimore made that determination as to where the airport would be located and the city of Baltimore apparently made the determination that it was intended to be used as a regional airport as between the two cities?

Mr. CRANE. Yes, sir.

Mr. WILLIAMS. Was there any consultation with the officials of the city of Washington? Was this a cooperative effort of any kind as between the District of Columbia and the city of Baltimore, or was this purely an assumption on the part of the city of Baltimore that this would eventually become the National Capital area jet airport?

Mr. CRANE. I was told by one of the original members of the committee which picked out that site that they had the advantage of the views of Federal authorities in the location of the airport. As I said a moment ago, Mr. Chairman, when it was dedicated, it was dedicated as being the auxiliary airport for the National Capital.

Mr. WILLIAMS. Yes, sir.

Mr. CRANE. I am sorry that I can't answer your question as of my own personal knowledge.

Mr. WILLIAMS. If you don't have the knowledge you can't answer it?

Mr. CRANE. No, sir. With your permission I will go on with this statement. I have spoken about my purpose in accepting your kind invitation to be here and I say here I would like to explain more fully what we have in mind.

First, compare Friendship Airport with Dulles Airport: Friendship, as I said a moment ago, is intermediate to Baltimore and Washington and was located to provide both propeller plane and jet service for Baltimore and the counties of Maryland and also jet service for Washington. Planeside at Friendship can be reached more quickly than at Dulles from points in southern Pennsylvania, the Eastern Shore, the Baltimore metropolitan area, southern Maryland counties, and that section of the District of Columbia and its environs east of 16th Street, and that includes the bus terminal at 12th and K Streets.

Second, I would like to make a very brief comparison between the facilities at Friendship and those at Washington National: In the well-known Baltimore-Washington adequacy of service case, which I think took nearly 4 years for its conclusion, it was determined that a line running from northwest to southeast between College Park and Hyattsville divided the Friendship and Washington National service areas.

Yet a survey of enplaning passengers at Washington National in August 1962 indicated that about 9 percent of their air passengers would have found ground travel to Friendship more convenient than to Washington National.

This 9 percent means that approximately 450,000 persons in the calendar year 1962 were being inconvenienced. And if we took into account the uneconomic and time-consuming "stacking up," which has been referred to by other witnesses here, which is reported to occur frequently at Washington National because of overcrowded schedules, the number of people who would find Friendship more convenient would undoubtedly be much larger.

At the end of 1962 the total investment in Friendship Airport was \$22 million, of which about \$18 million was supplied by the city of Baltimore and \$4 million by Federal grants, and I am happy to

say that just a few days ago another Federal grant was passed for the improvement of our runways, which totals about \$513,000.

We now have one full-length runway, another jet runway 8,450 feet, and a third jet runway of 6,000 feet for smaller planes. The 8,450-foot jet runway will be lengthened to the full 9,450 feet in the next step which we take.

In 1961 a new finger pier and a modern international wing were added to our excellent terminal building.

I would like to inform the committee as to what has happened since Friendship went into operation in 1950. For the first 9 years it was virtually an air mausoleum, practically ignored, while flights were concentrated at the already congested Washington National Airport.

As a consequence people from our area were forced to travel by ground some 45 miles or more to Washington National for flights or to continue using other means of transportation—trains or buses or private automobiles—as many of them did. Baltimoreans could have reached planeside at Friendship with only 10 miles of travel.

There was a question asked here earlier about rapid transit facilities to this airport in which we are interested. We have not been so bold as to ask for the many millions of dollars to put in a monorail between the northeastern suburbs of Washington and Friendship, or even one of these very expensive no-access runways, but it only requires 20 minutes to travel by bus or limousine from Baltimore's business district to Friendship and about 40 minutes by bus or limousine from the bus terminal at 12th and K Street, so, as I know about the bus travel times at other airports in this country, we are not suffering a great disadvantage from that score, but undoubtedly if we had \$50 or \$60 million for a monorail system it would shorten that time somewhat, if not from Baltimore, at least from Washington.

The passenger throughput at Friendship in 1951, the first full year of operation, was 211,000—that is incoming and outgoing passengers—and by 1958 it had grown only to 388,000. Gentlemen, that is an average of 30,000 per year growth during that 7-year period.

Air passengers at Washington National in 1951 totaled 2,459,000 and by 1958 had reached 4,534,000, and, gentlemen, that is a yearly growth on the average of 300,000 as contrasted with our 30,000.

With the advent of the large jet aircraft in 1959, and with modest improvements in propeller plane schedules, passenger growth at Friendship became recognizable. Throughput climbed to 542,000 in 1959, 747,000 in 1960, 1,136,000 in 1961, and it reached a high of 1,436,000 in 1962.

This growth was a combination of greater use of air travel by people in the Baltimore metropolitan area in response to the more nearly adequate service offered them, and the appeal of jet flights to people traveling to and from the entire Baltimore-Washington area.

During the period from 1959 until late in 1962 Friendship accommodated all jet traffic in this area. Even then its facilities were not taxed and without major expansion it could have handled three or four times as many scheduled flights by both jet and propeller aircraft.

As a matter of fact, today we have about 165 flight movements in and out, between the two. As a comparison, Washington National



has upward of 600, and we are a larger airport than Washington National and we have a very strong desire to render better service than we are presently rendering.

Following the opening of Dulles in November of 1962, about 45 percent of our jet flights were transferred to that airport. British Overseas Airways removed its London service from Friendship in March of 1963, despite the fact that at Friendship they could draw on the combined Baltimore-Washington market, whereas people in the Baltimore area refused to spend some 2 hours traveling on the ground 75 miles westward to take an eastbound transatlantic jet flight to London.

They will fly to New York if necessary and the New York-British Overseas Airways is competing not only with Pan American and TWA for transatlantic passage, but also approximately one dozen foreign-flag airlines.

I have tried to find a reason based on economics or convenience why British Overseas transferred their service lock, stock, and barrel to Dulles Airport, but they have told me, and this is the only reason that they have ever given me, that they have done so because Federal officials have designated Dulles as the National Capital's airport and they have a slogan and it says that they fly between the national capitals of the world.

If we exclude any circumstantial evidence as to why they might have otherwise been induced to go there, it seems to me that they are paying a very high price for the tenuous "prestige" of going to another airport where the charges are three times as great as they were at Friendship, and I said to their London manager recently that I will never understand, when they lose \$34 million in 1961 and \$40 million in 1962, why they felt that they had to go to another airport not intermediate to these two great cities and where they are not handling the same volume of traffic that they handled at Friendship, and he said, "Well, that is it." He said, "I can't deny your assertions as to the reasons why you think Friendship would be better for us, but we have to make that move."

I have been an executive in the electric and gas utility business for many years and also active in various communitywide civic affairs. I believe I have never seen a more intense public reaction than there was to the removal of flights from Friendship nor more general support than is given our airport board in our efforts to retain and improve service at Friendship.

Partly because of this and because of greater passenger potential, some of the airlines have been returning jet flights to Friendship or instituting new flights. Examples are service to and from Miami, some midwest and west coast cities, and Boston.

But there is still a long way to go before we have what might be considered reasonably adequate service, particularly in the matter of commuter or convenient same-day round-trip service strongly desired by business travelers.

To illustrate the effect on Friendship or Dulles, our passenger traffic throughput in the first few months of 1963 was about 30 percent under the same months of 1962, but since then, with the return of some flights to Friendship, the decline is smaller—about 23 percent in June and an estimated 19 percent in July.

We hope the recovery will continue and that Friendship will again begin to show normal growth if the airlines, in their scheduling, give unhampered recognition to the better location and better passenger and aircargo market available to them in Friendship's service area.

There is no reason why Friendship International Airport should not be officially designated as an airport serving Washington as well as Dulles. In fact, it is a disservice to the traveling public not to so designate Friendship, particularly those not familiar with the geography of this area and the more remote location of Dulles.

Congressman Friedel has a large file of letters from people who found themselves landing at Dulles, but would have much preferred Friendship. On the other hand, I have heard of no dissatisfaction from passengers landing at Friendship destined for the District of Columbia.

I do not, of course, suggest that locations south and west of Washington, such as Arlington, Va., may not be more convenient to Dulles.

I should like to mention, briefly, some of the withdrawals or plain lack of service we are contending with.

Before November 19, 1962, we had two daily nonstop jet flights to Atlanta, Ga., and two returning; now we have no jet flights and no nonstop flights. We have been working on having one flight each way restored and are hopeful of the outcome.

Nonstop jet service to and from Detroit was removed; recently we have been given such service to Detroit by another airline which gives more recognition to Friendship's market and we are looking forward to the installation of a return flight presently lacking.

Our lack of service to Newark Airport, generally considered the commuter airport for downtown New York, is the subject of daily and frequently bitter complaints from businessmen in Baltimore and the nearby commercial and industrial areas.

To Newark we have a total of only eight flights daily, one before 7 a.m., three after 10 p.m., and with serious gaps during the commuter periods, for example, of 7 hours and 30 minutes between 8 a.m., and 3:30 p.m., and 3 hours and 25 minutes between 3:30 p.m., and 6:55 p.m.; returning, the situation is similar although the gaps are not as severe.

This may be contrasted with 34 well-spaced flights daily from Washington National. Friendship has no flights to LaGuardia; Washington National has 28 daily.

Friendship now has no service to or from Hartford, Conn. Washington National has eight flights in each direction.

There are a number of cities to which Friendship has service in only one direction whereas Washington National has multiple flights both ways; for example Birmingham, Ala.; Charlottesville, Va.; Memphis, Tenn.; and Raleigh, N.C.

I have a list of other instances of inadequate or nonexistent service at Friendship. It is by no means complete, but it follows the pattern of the examples I have just mentioned.

You might ask, "What is our airport board doing about the problem?" Well, we have had personal meetings with officials of most of the airlines and direct correspondence with the top officers of all the airlines serving Friendship.



In some cases this has been fruitful. With the possible exception of one airline, which for some reason does not wish to serve Baltimore after specifically asking the CAB for and having been granted such authority (Northwest), it has been indicated to me that the airlines are well satisfied with the facilities and economy of their operations at Friendship and with the growing passenger and cargo business obtained in our service area. Even BOAC said that they were highly pleased with their operations and expanding business at Friendship—but still they withdrew.

We publish regularly—and I believe send each of you gentlemen a copy—a complete consolidated through-plane schedule of all flights at Friendship. In simplified and easy-to-use form, it is the only such complete consolidated schedule put out by an airport as far as I know.

Early this year, at my request, the city of Baltimore appropriated \$50,000 for a special promotion campaign. Anyone familiar with advertising knows that this is a modest sum for such purpose, especially when part of the objective is to reach a national audience.

Nevertheless, we feel we have had considerable success in achieving our twofold purpose. First, we are trying to acquaint air travelers coming from other sections into this area with the service offered at Friendship and its convenience to the combined Baltimore-Washington metropolitan area. Secondly, but not of less importance, we are trying to stimulate the use of air travel by people in this area.

It may be a case of David tilting with Goliath, but we do not have available to us any one single weapon to accomplish our much more peaceful purpose. We are doing whatever we think can be done and should be done to assure fair treatment in the matter of vital modern air transportation to the people and businessmen who can best be served at Friendship International Airport.

Our case is based on convenience to the public and operating economy to the airlines. It seems to us that these should be the overriding criteria. I suggest to you gentlemen that when you have presented to you statistical evidence of how many passengers went through any airport, Friendship or Washington National or Dulles, during a certain time, you must not, if you permit me to say this, assume that with better service that same number of passengers would represent the throughput.

We are laboring under a gross inadequacy of service for the people in Maryland and the surrounding area and any computations that may be presented to you either today or any other time based on the number of passengers as they are today, in my opinion, would not represent what they would be if we had better service.

I want to say that I am deeply grateful to you gentlemen for again hearing our story. I would be happy to answer, to the best of my ability, any questions you may have.

Mr. WILLIAMS. Thank you very much. It was an excellent statement. Are there any questions?

Mr. FRIEDEL. No questions. I just want to compliment Mr. Crane for the great work he is doing.

Mr. WILLIAMS. Mr. Devine?

Mr. DEVINE. No questions.

Mr. MACDONALD. No questions.

Mr. WILLIAMS. Thank you.

Mr. WILLIAMS. We have next our colleague from Maryland, Mr. Morton. I understand, Mr. Morton, that you would like permission to submit a statement. Is that correct, sir?

STATEMENT OF HON. ROGERS C. B. MORTON, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF MARYLAND

Mr. MORTON. Yes, Mr. Chairman. I would like to submit a statement in support of the remarks that Mr. Crane made in connection with Friendship and I would just like to say that I am here in behalf of trying to achieve a better balance of air traffic between National, Dulles, and Friendship which will, in my opinion, greatly enhance the service to the people of Maryland, particularly of the Eastern Shore.

Thank you very much.

Mr. WILLIAMS. Thank you very much. The committee will be very happy to receive your statement.

Mr. MORTON. Thank you.

(The statement follows:)

STATEMENT OF HON. ROGERS C. B. MORTON, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF MARYLAND

Mr. Chairman, I appreciate the opportunity to submit this statement in behalf of Friendship Airport.

The facilities of Friendship, its proximity to Baltimore and Washington, its relationship to other airports in the Baltimore-Washington metropolitan complex, are all factors well established and documented in the record of this hearing. One need be only a casual air traveler to and from the Washington area to realize that the National Airport though convenient to downtown Washington is heavily taxed not only from the point of view of ground facilities but also from the point of view of air traffic. It is the usual thing, not the unusual, to encounter either a delay in landing or takeoff, or a delay in deplaning due to limited aircraft parking facilities.

My plea before this committee is not simply a partisan demand to provide more services from Friendship, but more to urge this committee to take the leadership with the proper agencies of Government to study the services provided from all three airports serving this area. It is hoped that such a study will result in better air traffic management and more balanced travel opportunities for the residents and business travelers of the total area.

In itself, the city of Baltimore is the sixth largest city of the United States. It is the second largest seaport. It is a community exhibiting dynamic business growth. And, even without considering the requirements of its next door neighbor, is deserving of topflight air service to key cities and major interchange points.

In the study of this problem, it is hoped that the committee will review objectively all the facts in the light of possible conflict of interest which could exist as an influence on air traffic development in the great metropolitan complex of this area by reason of the Government's proprietary interest in both the National and Dulles Airports. I am sure if such a conflict of interest has played a part in building up traffic in the two Washington airports at the expense of Friendship, this has been done unintentionally, but in the natural inclination of people serving interests closest to them.

I am confident that with sound management techniques, a plan can be worked out to serve the best interests of our great community. It must provide conveniences for the most number of travelers involved, and create a balanced use of facilities resulting in efficiencies and minimizing the requirements for additional capital investment.

May I respectfully urge the committee toward this end.



Mr. WILLIAMS. The Honorable Alan Boyd, the Chairman of the Civil Aeronautics Board. Mr. Boyd?

**STATEMENT OF HON. ALAN S. BOYD, CHAIRMAN, CIVIL  
AERONAUTICS BOARD**

Mr. BOYD. Good morning, Mr. Chairman and members of the committee. I would like to make a statement before I go into my prepared statement.

I have listened to the testimony this morning. I want to congratulate Mr. Friedel on a very thoughtful and objective statement. I want to tell you, Mr. Chairman, that it was your good fortune you were not here to hear a good bit of the testimony which was based on innuendo, inference, misstatement, and half-truths.

Mr. Chairman, the personal integrity of the members of the Civil Aeronautics Board has been brought into question by these completely unsupported inferences that have been made by Mr. Crane, Senator Beall, and Senator Brewster.

There is an aura about their testimony to the effect that if the truth were really known, even though they can't prove it, the members of the Civil Aeronautics Board are undertaking to distort their position and the law to the detriment of the citizens of Baltimore and of Friendship Airport.

Mr. Chairman, we are, in effect, defenseless, when these people are able to come here and in open forum make these charges without any support, and I can only say that for one I ask these gentlemen specifically to either put up or shut up.

I do not like to have my character questioned by this type of innuendo, and if I am not fulfilling my constitutional obligations I think this committee is entitled to know it. If I am, I do not like to have my character assassinated.

Mr. WILLIAMS. Mr. Chairman, I regret that I was not here during that testimony and, of course, I am not familiar with the particular references that you mentioned.

I think it is unfortunate, however, if these witnesses did impugn the personal integrity or the official integrity of the members of the Board.

I have always found the Board to be very fair and very reasonable and, insofar as I know, certainly I have no reason to impugn the integrity of any member of the Board.

As far as I know, every member of the Board, and particularly the Chairman of the Board, is seeking to do his honest duty in carrying out the letter and the spirit of the Civil Aeronautics Act, and certainly I would not join in any criticism of the Board that might have a tendency to impugn the personal character of any of the members or of the Board collectively.

Mr. BOYD. Thank you, Mr. Chairman. I would like to say that I do not make this outburst with any feeling that the Board should not be subjected to criticism, and severe criticism.

We are fair game for our actions, but I do not see any reason for anybody to indicate that there is some sort of a devious network that

doesn't appear on the surface that is being used to frustrate the legitimate aims of any community or of the airlines.

Mr. WILLIAMS. I would hope that you might have occasion at least to elaborate on some of the specific charges that were made by these witnesses because, as I say, I was not here.

I do intend to review the record very carefully.

Mr. BOYD. The charges were to the effect, Mr. Chairman, that the airlines feel that it is in their best interest to get along with the Civil Aeronautics Board and the Civil Aeronautics Board has the power of life and death over them, and, therefore, they are amenable to influence to put their flights into Dulles because the Civil Aeronautics Board says that their flights should be in Dulles, and there is no proof on this.

Each one of these witnesses said, "We don't have anything direct, but that is obviously what is happening," that we have some sort of a quiet understanding, and there is a considerable amount of misinformation in the minds of some of these witnesses about who are the regulatory agencies involved in what area.

They are very careless in using "regulatory agencies" plural, when it suits their purpose to drag the Board into the area of the FAA jurisdiction and vice versa, and I am sure this committee understands the difference between our jurisdictions, but I want to assure the committee that the Civil Aeronautics Board expects those carrier who are certificated to serve Washington to do so at Washington and those who are certificated to serve Baltimore to do so at Baltimore.

Everything we have done in this case is open and above board. Our files are public and anybody who wants to see them merely has to go to the Universal Building and take a look.

I don't like the inference that we are doing anything quietly or underhand, and I would like, furthermore, to state, Mr. Chairman, that if the airlines are seriously concerned about doing what the Board wants, we haven't seen any overt evidence of it.

I think they are about as independent as any group I have ever dealt with and I congratulate them for it.

Mr. WILLIAMS. With respect to the statement that you have just made and the statements that have been made to the committee, I am sure that you would join me in this statement. If these witnesses should have any tangible evidence to support the charges that have been made, this committee would welcome the return of such evidence and if it proves that there is substance to these charges, I feel sure that either this committee or the Legislative Oversight Subcommittee of the Commerce Committee would want to look into this matter thoroughly. I feel sure that the chairman would certainly welcome such an investigation, if you want to put it in that light.

Mr. BOYD. Yes, sir; you may be sure of that. In fact, while you were out of the room members of the committee did just exactly that, asked these witnesses for proof, and were told that there was no direct proof, but this obviously is the inference, that if they really knew the facts they would be able to prove it.

Mr. WILLIAMS. I think it is regrettable indeed the charges have been made which are unsupported and unfounded by evidence. If there is evidence the committee would like to have it very much. Is there any comment from members of the committee before we proceed with Mr. Boyd's statement?



Mr. FRIEDEL. I want to say this, and I said it earlier, I want to compliment you, Mr. Boyd. There are a lot of things I don't agree with you on, but I have never tried to impugn your integrity on anything that you have done. I think you are one of the real dedicated public officials who is doing a wonderful job. I am fighting for more adequate service for Friendship—you can't blame me for that—but I am not trying to impugn your integrity in any way, shape or form.

Mr. BOYD. No, sir, and I want to reiterate my admiration for the objectivity and also for the drive that you have exercised, and I am keenly sorry that some of your colleagues, apparently in this particular matter, didn't seem to have the sense of responsibility that you have shown so well through the years in this fight that you have been putting on.

Mr. WILLIAMS. Thank you.

Mr. MACDONALD. I would just like to add to that. I don't know what colleagues you have in mind, Mr. Boyd, because I haven't heard any colleague of mine on this subcommittee or the full committee ever impugn your integrity.

Mr. BOYD. I was talking of the witnesses this morning, Mr. Macdonald.

Mr. MACDONALD. Right. They are not exactly colleagues in the sense that they are not serving here in Congress.

Mr. BOYD. I am sorry. I don't want to associate you with people you don't want to be associated with.

Mr. MACDONALD. I am happy to be associated with the Senators who are trying to protect Maryland. I think that is their job. I didn't hear any of them impugn your motives, but I was very delighted to have you say to this subcommittee that you welcomed an investigation by the Legislative Oversight Committee because yesterday on the floor of the House I suggested that, not about Baltimore, but rather what would seem to me a rather erratic cutting off decision which cut off service to New England and Boston particularly, by Northeast and taking that airline out of service.

I think that your advocating an investigation would add some weight to my request for that Legislative Oversight Subcommittee to investigate the reasoning behind this cutoff. I hope I have an opportunity today, and if not I am sure a later date, to question you about that matter.

Mr. WILLIAMS. May I say at this point that while the Interstate and Foreign Commerce Committee does have responsibility for maintaining legislative oversight over the operations of the regulatory agencies under its legislative jurisdiction, there is sort of a twilight zone of jurisdiction as related to this particular subcommittee in this field.

The jurisdiction for making an investigation into the actions of the Civil Aeronautics Board with respect to whether or not they are properly carrying out the responsibilities and obligations the law imposes upon them properly rests with the Legislative Oversight Subcommittee of this committee.

I would hope that we don't get too deeply into that subject, but that any evidence of malfeasance, improper influence or any other actions on the part of the Board which are irregular according to law would be referred to the Legislative Oversight Subcommittee or to the

chairman of the Commerce Committee, the parent committee of this committee, for determination as to which subcommittee will properly have jurisdiction.

Mr. BOYD. I will continue with my statement, Mr. Chairman. I would like to say that I am not advocating an investigation of the Civil Aeronautics Board.

Mr. WILLIAMS. I understand that.

Mr. BOYD. I would feel that my competency would be in question if I did, but I am certainly prepared and urge that if anybody has charges to make, their charges be made and an investigation then be conducted, and I can assure you that I and the other members of the Board are prepared to stand up and be counted anytime anywhere.

Mr. WILLIAMS. I was not advocating an investigation of the CAB. I was simply saying if there was any evidence of wrongdoing on the part of the CAB and if the evidence so warrants, I can assure you that investigation would be in order.

Mr. BOYD. I would share that and cooperate fully.

Mr. Chairman, there are attached to my prepared statement several tables containing factual information which I am sure will be of interest to you. Table 1 lists those air carriers holding certificate authority to serve Baltimore and/or Washington. Of the 19 carriers listed thereon, all except 4 are authorized to serve both cities.

Branniff, Aeronaves de Mexico, S.A., and Varig are authorized to serve Washington only, and Seaboard World Airlines, an all-cargo carrier, is authorized to serve Baltimore only.

Table 2 is a summary by carrier of average daily scheduled aircraft departures at Friendship and Dulles Airports as of July 1963, showing the total for each carrier, as well as detail by class of equipment. This table also shows the schedule pattern at Friendship in July 1962, before the opening of Dulles.

As between the two periods shown thereon, the total number of schedules at Friendship has been reduced from 94 per day to 76, for a decrease of 18. This decrease is made up of a reduction of 19 pure jet schedules, an increase of 12 turboprop schedules, and a decrease of 11 piston schedules.

During July 1963, Dulles was receiving 39 scheduled departures per day, made up of 29 pure jets, 5 turboprops, and 5 piston-type flights.

Table 3 is a summary for the 5-year period 1958 to 1962 of the scheduled departures from the Washington and Baltimore airports, and the passengers originated in the overall area. It also sets forth data for the first quarter of 1963, the first complete quarter of operations at Dulles, and, for purposes of comparison, data for the first quarter of 1962 before the opening of Dulles.

In terms of ratio of operations between the Baltimore and Washington airports, the data contained in the table shows, for example, that, during the period 1958-60, less than 15 percent of the area's aircraft departures were from Friendship and that these departures also accounted for less than 15 percent of the area's passengers.

As you know, this period was the threshold of the rapid changeover to jet equipment with all such service being provided through Friendship, and as a result the statistics for Friendship showed a marked increase in 1961 and 1962. In 1961, Friendship had 20.7 percent of



the departures for the overall area and originated the same percentage of passengers, and in 1962, its peak year thus far, Friendship had 23.3 percent of the area departures and originated 23.6 percent of the traffic.

The statistics for the first quarter of 1962 shown on table 3 reflect approximately the same percentages of participation. However, the figures for the first quarter of 1963, a period in which Dulles was in full operation, show that Friendship's departures had dropped approximately 4 percent or to 19.4 percent of the total area departures, and that its passengers originated had dropped about 8 percent or to 15.9 percent.

During the same quarter, Dulles accounted for approximately 9 percent of the area's departures and passengers, thus indicating that some of the traffic which could have been served by Washington National also had been diverted to Dulles.

In terms of total volume of departures and traffic served by Friendship alone, it may be noted that Friendship had some 17,000 departures in 1958 and a little over 29,000 departures in 1962. Assuming that the figures for the first quarter of 1963 are fairly representative, Friendship may anticipate some 25,000 departures for 1963, thus bringing the airport activity in terms of scheduled departures to somewhere in the vicinity of the 1961 level of operations.

In terms of passengers originated, the increase has been from 196,000 in 1958, to 677,000 in 1962. Again assuming that the 1963 figures are representative, the 1963 total will be about 450,000 which again exceeds the 1960 level of operations.

One other set of figures should be noted, and that is the on-flight survey of airline passengers departing from Friendship and Washington National Airport which were conducted during the period August 13-19, 1962. This survey was conducted by the Friendship Airport Board and the airlines serving the two cities, with the cooperation of the Civil Aeronautics Board's Office of Community and Congressional Relations.

I have copies of this survey for the record. As you are probably aware, Mr. Crane, who has already appeared before you, headed Baltimore's official participation in the survey. During the course of the survey, 1,296 flights were covered, or 77 percent of the total flights scheduled to depart from Friendship and Washington National Airport.

After discarding those questionnaires which were incomplete and those which were answered by passengers who were connecting at either of the airports rather than originating, there were 19,387 returns. Of this number, 12,736 boarded at National, while 6,651 boarded at Friendship.

Thus, in terms of actual airport utilization as reflected by the usable returns, Friendship accounted for approximately one-third of the boardings, and this at a time prior to the opening of Dulles when all the jet aircraft were using Friendship.

In conducting the survey, the entire area was zoned by location and all returns were coded by point of origin in the area as well as by domicile, in order that information could be obtained for future use in ascertaining the relative convenience of the various airports

in terms of persons residing in the overall Baltimore-Washington area.

However, additional computations beyond those made in the original survey are necessary for that purpose, and statistics indicating the number of passengers who would find either Friendship or Dulles more convenient because of comparative surface travel times and distances have not been officially formulated by the Board.

However, I am told by the Board's staff that, on the basis of estimated driving times, between 25 and 30 percent of the total area traffic could be more conveniently served through Friendship as compared to Dulles. In this connection it is interesting to return to table 2 in terms of the schedules now being operated at the two airports.

Friendship is now served by 43 percent of the total pure jet schedules to the area. Hence, if it be assumed that from 25 to 30 percent of the area traffic would be most inconvenienced by service to Friendship, the distribution of long-haul expedited schedules would appear to be adequate as between the two airports.

This takes into account the fact that there are no long-haul expedited schedules from Washington National and that all such service for the area must either be provided at Friendship or Dulles.

Finally, I am aware, Mr. Friedel, that you have received many letters of complaint concerning service to Friendship versus service to Dulles. These letters appear in many instances to be based on misinformation on the part of those making reservations and ticketing passengers to Baltimore with the result that passengers have not been made aware of the fact that they could reach Washington through flights to Friendship or have been routed to Dulles when landing at Friendship could have been more convenient.

However, I believe that the many meetings that you have held with the air carriers have gone a long way toward straightening out this particular problem and your efforts in this respect have certainly proved productive.

This concludes my prepared statement and if there are any specific questions that you have to ask, I will be glad to attempt to answer them.

(The material referred to follows:)

[TWA Reservations and Ticket Sales, CTO Bulletin, New York, Aug. 1, 1963]

Bulletin No. 63-423 Domestic—63-921 International.

Subject: Baltimore passengers.

Complaints have been received from passengers who expected to arrive in Baltimore but whose flights have terminated at Dulles International Airport. Since Dulles is located approximately 75 miles from Baltimore, a customer can be seriously inconvenienced if he is terminated at the wrong airport.

Our conversational techniques provide that we will mention the name of the airport in multiairport areas and also reach an understanding with the customer. Anytime we receive a complaint from a passenger who claims not to have been aware of the airport of intended landing, we have not presented the schedules properly.

Baltimore's Friendship International Airport has been considered both the Baltimore and the Washington jet airport with limousine service to both cities. Now that Dulles is in operation, it appears that some of our people may be under the impression that Dulles too is the airport for Baltimore and Washington.



Remember the following:

1. Friendship Airport is the airport of service for Baltimore.
  2. Dulles is not considered an airport of service for Baltimore.
  3. Dulles is approximately 75 miles from Baltimore, and
  4. There is no ground transportation between Dulles and Baltimore, except a long cab ride involving an outlay of \$25 to \$30.
- All personnel should be especially careful to explain the facts when routing air travelers to Baltimore and other Maryland points.

JOSEPH A. CLAY,

System Director, Reservations and CTO's.

Distribution: R-3, R-4, R-7 mailing lists.

TABLE 1.—Carriers holding certificate authority to serve Baltimore and Washington

Carrier	Baltimore	Washington	Carrier	Baltimore	Washington
Allegheny.....	X.....	X.....	United.....	X.....	X.....
American.....	X.....	X.....	Pan American.....	X.....	X.....
Braniff.....	X.....	X.....	Seaboard World.....	X.....	
Delta.....	X.....	X.....	Aeronaes de Mexico, S.A.....		X.....
Eastern.....	X.....	X.....	Air France.....	X.....	X.....
Lake Central.....	X.....	X.....	British Overseas Airways.....	X.....	X.....
National.....	X.....	X.....	Eagle Airways (Bermu- da).....	X.....	X.....
Northeast.....	X.....	X.....	Varig.....		X.....
Northwest.....	X.....	X.....			
Piedmont.....	X.....	X.....			
Trans World.....	X.....	X.....			

Source: CAB records.

TABLE 2.—Average daily departures scheduled, by carrier and equipment classification for Friendship and Dulles, July 1962 and July 1963

	July 1962				July 1963			
	Jet	Turbo-prop	Piston	Total	Jet	Turbo-prop	Piston	Total
<b>Friendship:</b>								
American.....	5	0	3	8	4	0	3	7
Allegheny.....	0	0	5	5	0	0	4	4
Delta.....	5	0	0	5	4	0	2	6
Eastern.....	6	4	11	21	2	7	7	16
Lake Central.....	0	0	4	4	0	0	3	3
National.....	0	4	4	8	0	8	0	8
Northeast.....	0	0	2	2	0	0	2	2
Northwest.....	1	0	0	1	0	0	0	0
Piedmont.....	0	0	3	3	0	0	3	3
Trans World.....	6	0	1	7	4	0	2	6
United.....	16	2	10	28	7	7	6	20
Pan American.....	2	0	0	2	1	0	0	1
<b>Total.....</b>	<b>41</b>	<b>10</b>	<b>43</b>	<b>94</b>	<b>22</b>	<b>22</b>	<b>32</b>	<b>76</b>
<b>Dulles:</b>								
American.....					3	0	0	3
Braniff.....					4	0	0	4
Delta.....					2	0	0	2
Eastern.....					5	1	4	10
Northwest.....					1	0	0	1
Trans World.....					3	0	0	3
United.....					9	4	1	14
BOAC.....					1	0	0	1
Pan American.....					1	0	0	1
<b>Total.....</b>					<b>29</b>	<b>5</b>	<b>5</b>	<b>39</b>

NOTE.—For purposes of this summary, only flights operating 5 or more days per week are included.

TABLE 3.—Selected airport activity statistics, Baltimore and Washington, years 1958-62 and 1st quarters of 1962 and 1963

	Scheduled departures performed						Passengers originated (scheduled service)							
	1958	1959	1960	1961	1962	1st quarter, 1962	1st quarter, 1963	1958	1959	1960	1961	1962	1st quarter, 1962	1st quarter, 1963
Baltimore:														
American.....	2,625	2,831	2,524	2,167	2,528	565	540	27,171	52,028	76,314	72,745	94,127	22,379	10,663
Allegheny.....	281	583	1,408	1,361	1,536	422	294	229	995	7,358	5,635	6,308	1,385	9,967
Delta.....	646	286	418	1,030	1,003	317	459	6,103	7,032	9,259	21,288	35,163	6,823	9,436
Eastern.....	5,880	6,122	5,460	8,144	5,795	2,344	1,173	66,983	73,434	76,217	92,525	82,467	29,307	20,000
Lake Central.....				767	1,267	250	288				3,901	6,622	1,306	1,186
National.....	1,046	2,374	1,862	2,403	2,370	366	658	15,742	26,895	24,048	28,064	37,377	8,592	8,128
Northeast.....				280	606	52	219				10,277	10,205	2,773	2,773
Northwest.....			28	469	402	298	222			73	7,751	17,021	4,009	2,246
Piedmont.....					462						6,015			2,128
Trans World.....	1,265	1,599	1,337	2,132	2,865	654	494	21,288	46,138	48,527	59,168	100,217	20,369	13,272
United (Capital).....	4,205	4,087	4,638	7,745	8,762	2,030	1,773	56,701	59,217	117,871	229,821	285,898	57,665	43,853
Pan American.....	185	449	422	564	653	127	134	1,913	4,536	7,256	13,770	15,684	3,351	3,749
Total.....	16,733	18,288	18,127	27,138	29,260	7,573	6,236	196,130	271,275	367,223	544,955	677,104	159,108	116,431
Washington (National):														
American.....	18,862	17,778	15,962	11,737	10,985	3,020	2,374	439,324	392,155	350,654	283,343	201,826	71,643	63,582
Allegheny.....	2,627	2,763	2,734	2,077	4,821	1,117	1,315	35,357	33,106	38,393	19,393	46,808	17,219	23,771
Brantford.....	2,919	5,615	2,200	2,408	1,111	622	320	32,842	32,625	38,893	44,732	46,510	12,158	15,522
Delta.....	3,347	3,010	2,128	2,031	1,369	339	467	46,983	47,936	43,689	44,046	41,494	8,990	9,324
Eastern.....	31,506	42,901	32,605	31,782	25,113	7,573	5,441	489,360	600,805	551,166	600,407	636,180	179,093	204,361
Lake Central.....				1,831	2,515	587					11,709	14,426	3,492	3,423
National.....	7,302	9,653	8,085	7,934	8,216	2,006	2,003	125,356	145,293	143,817	158,366	199,540	45,876	45,068
Northeast.....	2,964	6,694	7,472	8,876	6,595	2,032	1,821	51,659	133,631	181,155	213,287	169,831	39,312	23,833
Northwest.....	1,832	2,081	2,354	1,837	2,746	597	789	65,585	74,553	84,195	98,767	102,074	29,581	29,085
Piedmont.....	2,832	3,216	3,064	3,063	5,078	701	1,677	45,277	59,971	58,803	61,015	101,814	14,251	28,943
Trans World.....	6,041	6,227	5,576	4,856	4,380	1,051	1,004	149,312	141,202	134,658	108,261	98,701	23,450	19,854
United (Capital).....	25,238	28,898	23,981	22,070	20,978	5,099	4,911	537,440	568,024	452,201	414,397	392,146	87,054	92,507
Total.....	105,271	125,646	107,161	103,532	95,007	24,916	22,970	2,018,127	2,230,703	2,084,907	2,087,469	2,160,350	511,834	549,103
Washington (Dulles):														
American.....						85	246						4,479	14,781
Brantford.....						81	172						1,747	3,574
Delta.....						62	150						766	2,084
Eastern.....						691	1,446						9,536	16,965
Northwest.....						85	134						3,762	5,178
Trans World.....						232	563						5,754	12,441
United.....						0	227						0	10,567
Pan American.....						0	45						0	577
Total.....						1,236	2,973						26,044	66,197

Source: CAB airport activity statistics; CAB form 41.



*Work stoppages arising from labor-management disputes during the period covered in selected airport activity statistics<sup>1</sup> review*

Carrier	1958	1959	1960	1961	1962	1963
American	Sept. 19 to 20, 1958					
Braniff	Dec. 19, 1958 to Jan. 11, 1959	Dec. 19, 1958, Jan. 11, 1959	Mar. 31 to Apr. 4, 1960	Feb. 18 to 23, 1961		
Eastern	Nov. 24 to 26, 1958		Sept. 26 to Oct. 5, 1960	do	June 23 to Sept. 13, 1962	
Lake Central	Nov. 24 to Dec. 31, 1958		June 11 to 21, 1960	do		
National				May 2 to 9, 1961		
Northwest			July 7 to 23, 1960			
Trans World	Nov. 21 to Dec. 3, 1958		Oct. 11, 1960 to Feb. 24, 1961	Oct. 11, 1960 to Feb. 24, 1961		
Capital (United)	Oct. 15 to Nov. 22, 1958		July 2 to 6, 1960	Feb. 18 to 23, 1961		
Pan American	Sept. 19 to 20, 1958		June 18 to 21, 1960	do		

<sup>1</sup>To date.

Source: C.A.B. records.

Mr. BOYD. Thank you, Mr. Chairman.

Mr. WILLIAMS. Since this is Friedel Day in the committee we will recognize Mr. Friedel.

Mr. FRIEDEL. Mr. Boyd, there is one thing I would like to have cleared for the record, and I might be suffering under a misapprehension. I would like to direct you to your statement that people that want to go to Washington must go to Dulles Airport.

Mr. BOYD. No, sir. The statement I made was that the airlines who are authorized to serve Washington have to serve Washington either through Dulles or Washington National for service to Washington. The airlines authorized to serve Baltimore have to serve Baltimore through Friendship. The passenger is entitled to go anywhere he wants to go, and it is a matter for the passenger and the carriers to communicate as to how the passenger wants to get to Washington.

People come in and out of this area from all over the United States and obviously a lot of airline personnel don't know that there are facilities to move people from Friendship into Washington.

Mr. FRIEDEL. There must be some misunderstanding with the airlines and evidently it is carried over to the ticket counters, because I have received numerous letters, and I think I turned over to Mr. Dregge every one that I received. I think it was 55 letters, 6 specifically mentioning they could not get a flight out of Friendship or out of Baltimore to London. That is tremendous percentage-wise that want to go to London, and 6 out of 55 mentioned they couldn't get a flight out of Friendship.

I think through misunderstanding people are going to Dulles or are routed to Dulles because you say airlines that want to serve Washington must go to Dulles.

Mr. BOYD. Or Washington National.

Mr. FRIEDEL. Or Washington National. Many people do not know that Friendship is intermediate, that Friendship can serve both Baltimore and Washington and does. I called it to the attention of TWA and they immediately corrected it, not only TWA, but the Transportation Displays, Inc., United Airlines, and American Airlines. They not only sent out a bulletin, but they also gave a map to every ticket office showing where Dulles is, where Washington is, and where Friendship is, where Baltimore is.

Mr. BOYD. We have contacted the publishers of the Official Airline Guide to see whether something could be placed in that publication.

Mr. FRIEDEL. They are going to correct that, but there must be a misunderstanding because I have a letter indicating there was a group of 25 ladies that were routed to Dulles and they wanted to be in Washington or Baltimore. A lot of them had to go to Baltimore.

They were routed to Dulles and for some it cost them \$25 or \$30 to get to Baltimore. They wrote me this letter. I called it to the attention of the airline. I don't want to mention the name. They lost business because 11 out of 25 took another flight out of Friendship and did not return on that same airline.

Here is the bulletin that TWA sent out, and it is very explicit. If you can send out some order or regulation like this it would be helpful.

Subject: "Baltimore passengers." Complaints have been received from passengers who expected to arrive in Baltimore but whose flights have terminated at Dulles International Airport. Since Dulles is



located approximately 75 miles from Baltimore, a customer can be seriously inconvenienced if he is terminated at the wrong airport.

Our conversational techniques provide that we will mention the name of the airport in multiairport areas and also reach an understanding with the customer. Any time we receive a complaint from a passenger who claims not to have been aware of the airport of intended landing, we have not presented the schedules properly.

Baltimore's Friendship International Airport has been considered both the Baltimore and the Washington jet airport with limousine service to both cities. Now that Dulles is in operation, it appears that some of our people may be under the impression that Dulles too is the airport for Baltimore and Washington.

Remember the following. (1) Friendship Airport is the airport of service for Baltimore; (2) Dulles is not considered an airport of service for Baltimore; (3) Dulles is approximately 75 miles from Baltimore, and; (4) there is no ground transportation between Dulles and Baltimore, except a long cab ride involving an outlay of \$25 to \$30.

All personnel should be especially careful to explain the facts when routing air travelers to Baltimore and other Maryland points. That is signed by Joseph A. Clay, system director. United has done the same thing. They made these corrections. That is why I am talking about a misunderstanding.

I thought that Friendship served both Baltimore and Washington and Dulles served Washington and Virginia.

Mr. BOYD. There is no question in anybody's mind, Mr. Friedel, that Dulles does not serve Baltimore. That is one thing we are all settled on.

Mr. FRIEDEL. But Friendship does serve Washington and Baltimore.

Mr. BOYD. Yes, sir; but Friendship is the Baltimore Airport.

Mr. FRIEDEL. It is called Baltimore International Airport.

Mr. BOYD. Friendship is a great airport and it is a great airport for Baltimore.

Mr. FRIEDEL. There is one more thing I want to ask you to straighten out. I thought when an airline wants to move from one airport to another they file a notice with you and they have to give a reason. Is that correct or not?

Mr. BOYD. They file what is called an airport notice, which is a rather perfunctory notice, Mr. Friedel, and I am sure that it does require the statement of a reason.

Mr. FRIEDEL. Let me quote from your regulation:

#### AIRPORT AUTHORIZATION

Section 202.3(a). Airport Notice. If the holder of a certificate desires to serve regularly a point named in such certificate through the use of any airport not then regularly used by such holder, such holder shall file with the Board written notice of its intention to do so.

Such notice shall be filed at least 30 days prior to inaugurating the use of such airport. Such notice shall be conspicuously entitled "Airport Notice," shall clearly describe such airport and its location, and shall state the reasons the holder deems the use of such airport to be desirable.

I have several of those notices here.

The airlines that transferred from Friendship and applied for certificates to serve Dulles gave no reasons. The airlines that wanted to serve Friendship had to give a reason. Is there some explanation for this?

Mr. BOYD. It would be difficult to generalize there, but I have gone through this record pretty carefully, Mr. Friedel, because I realized that whatever I did you would know more about it than I do and I wanted to be as well prepared as I could.

I find that there was no question in anybody's mind that the airlines who moved their operations to Friendship Airport with the advent of jet aircraft did so on a temporary basis pending the construction of Dulles, because at the time the jets came in Dulles was already under construction.

The site had been finally picked and contracts had been let. There had been a series of hearings on this matter and, according to my perusal of the record, it was never questioned that the purpose was to have jet operations in this area pending the completion of Dulles because jets could not be used at the Washington National Airport.

Mr. WILLIAMS. I would presume, if the gentleman will yield, that with the advent of jets there was a mad rush of these airlines to get into Friendship in anticipation of serving Washington.

Mr. BOYD. That is right.

Mr. WILLIAMS. Before the airport was built.

Mr. FRIEDEL. I would like to get this one point across. If you could issue a directive that said Friendship Airport serves both Baltimore and Washington and that Dulles served Washington, I think that would clear a lot of misunderstanding, and a directive also to the airlines to mention the distance from Dulles to Baltimore.

Mr. BOYD. We don't have any authority to do the latter.

Mr. FRIEDEL. The first one?

Mr. BOYD. The latter. Whether we have the authority to do the first one I am not sure. I will have to check into that, Mr. Friedel.

Mr. FRIEDEL. If you do that I think it will clear up the picture tremendously.

Mr. BOYD. I will look into that and see whether we have the power, what is involved, how long it would take, and whether it is the judgment of the Board that it would be a good thing. I cannot of course commit the Board.

Mr. FRIEDEL. I made the statement there that within a 50-mile radius of Friendship there is a population of around 4 million people, that they are all potential airline passengers, and within the same radius around Dulles there is less than half or maybe just a little over one-third. This shows that Friendship is more conveniently located to the passengers for public convenience and necessity.

If you could find a way to correct that one thing, that Friendship serves both Baltimore and Washington, then I think that we could get the whole muddle cleared up.

Mr. WILLIAMS. Would the Board have authority to designate for this purpose Friendship Airport as Baltimore-Washington and Dulles as Washington National-Dulles? Is there precedence for such a type of authority?

Mr. BOYD. Yes, sir; there is with small airports. It has never been done with major airports to my knowledge, but in connection with the local service operations I am sure that we have done that. Sometimes we have permitted three communities to be named. My recollection,



Mr. Chairman, is that this is done by the carriers and that the Board either approves or disapproves. It is not that the Board issues a regulation and says henceforth and hereafter Baltimore will be known as Baltimore-Washington.

In many areas of our jurisdiction under the statute our jurisdiction is of a negative nature and we have the power to disapprove, but not the power to initiate.

Mr. WILLIAMS. In other words, with the cooperation of the airlines in this respect—this matter could be cleared up to a certain extent?

Mr. BOYD. Yes, sir.

Mr. FRIEDEL. If you can do what I asked for I think it would clear the picture up, because a lot of people feel if they go to Washington, no matter where in Washington, they must go to Dulles.

Mr. BOYD. I think what you have done with the airlines is going to go a long way in that direction, Mr. Friedel, and I can assure you that, as much as I admire you in your efforts in this connection, if we can work this thing out and it is a sensible, and reasonable, and lawful thing to do, I would just as soon have you off my back.

Mr. FRIEDEL. Thank you very much. Mr. Chairman, I would like to have these notices inserted in the record.

Mr. WILLIAMS. Without objection they will be inserted in the record. (The material referred to follows:)

TRANSPORTATION DISPLAYS, INC.,  
New York, N.Y., June 27, 1963.

HON. SAMUEL N. FRIEDEL,  
House of Representatives,  
Washington, D.C.

DEAR CONGRESSMAN: The enclosed copy of our reply to Mr. J. J. Tepas relates in detail the findings submitted to this office regarding the omission of Friendship Airport service from schedule No. 8 in the Chicago combined airlines timetables.

We wish to commend the prompt personal action taken on your part in this matter and assure you, effective with the July 1 edition, reinstatement of Friendship service in the aforementioned schedule.

Sincerely yours,

F. LEMOYNE PAGE, *President.*

JUNE 20, 1963.

Mr. J. J. TEPAS,  
Olin,  
Washington, D.C.

DEAR MR. TEPAS: We were deeply disturbed by the report contained in your letter of June 17 regarding the omission of nonstop Friendship Airport service in table 8 of the Chicago timetable.

Prior to January 1, 1963, specific reference was made to Friendship Airport within the schedule itself. Commencing with the January 1 edition, these flights were omitted in error on the corrected proofsheets received from the airlines. Unfortunately, month-to-month carryover errors of this nature are the hardest to control. Naturally, Friendship service should and will be reinstated in the forthcoming July edition. As a point of information, the "F" designator for Friendship has always been included in the Chicago timetable under "Explanation of References" (note complete set of current timetables enclosed).

In the Boston and New York tables, Baltimore and Washington are treated as two separate listings: Friendship Airport (Baltimore); National, Dulles (Washington Airport), and are listed under "Explanation of References."

We wish to take this opportunity to thank you for bringing this matter to our attention since we at TDI are proud of our relationship with the airline industry and the ever-expanding network of modern domestic air terminals coast to coast.

Sincerely yours,

F. LEMOYNE PAGE, *President.*

[Contact, p. 6, United Air Lines, June 14, 1963]

#### MORE ADVERTISING AWARDS

Recently United Air Lines received awards for outstanding advertising from the Chicago Federated Advertising Club. The CFAC presents Hermes Trophies, "Oscars" of advertising, for the best advertising produced in various categories. United received top honors for the following:

1. "Extra Care" newspaper campaign.
2. Small space newspaper campaign, Florida advertising.
3. Museum of Science and Industry exhibit, Chicago.

We also received an honorable mention award for car cards promoting jets to California.

#### FRIENDSHIP VERSUS DULLES

Baltimore's Friendship International Airport has been considered both the Baltimore and the Washington jet airport with limousine service to both cities. Now that Dulles is in operation, it appears that some of our people may be under the impression that Dulles too is the airport for Baltimore and Washington. This has led to a number of complaints from Baltimore-destined passengers arriving Dulles and expecting a short cab jaunt to Baltimore. The facts are:

1. Dulles is not considered an airport of service for Baltimore,
2. Dulles is approximately 75 miles from Baltimore, and
3. There is no ground transportation between Dulles and Baltimore, except a long cab ride involving an outlay of \$25 to \$30.

All personnel should be especially careful to explain the facts when routing air travelers to Baltimore and other Maryland points.

[American Airlines Bulletin, No. 254-63, Manager, Passenger Services, Washington, D.C.]

MAY 22, 1963.

To: Passenger service management.

From: Passenger services department.

Subject: Baltimore passengers terminating at Dulles.

Complaints have been received from passengers who expected to arrive in Baltimore but whose flights have terminated at Dulles International Airport. Since Dulles is located approximately 70 miles from Baltimore, a customer can be seriously inconvenienced if he is terminated at the wrong airport.

Our conversational techniques provide that we will mention the name of the airport in multi-airport areas and also reach an understanding with the customer. Anytime we receive a complaint from a passenger who claims not to have been aware of the airport of intended landing, we have not presented the schedules properly.

To prevent further misunderstanding, you should immediately review PSM—Res. & T.O. edition, section 20-10 with all personnel who have occasion to discuss schedules with our customers.

E. K. RHATIGAN,

*Director, Ground Passenger Service.*

Distribution list: 816.

[Interoffice correspondence]

AMERICAN AIRLINES,

*April 24, 1963.*

To: Managers, passenger sales: LAX, SFO, SAN, PHX, TUS, ELP, TUL, OKC, DAL, ACF, SAN, MEX, CHI, NYC, BOS, PHL.

From: Manager, passenger sales DCAS.

Enclosed is a supply of two maps which you may find helpful as reference material.

The first one shows the Baltimore-Washington area, and the location of Friendship, Dulles, and Washington National Airports.

The second shows details of Washington with the routes to Dulles from both downtown Washington and the principal suburban areas as well. Incidentally, the downtown airlines terminal is also the starting point from Washington to Friendship Airport.



At present there is no through ground transportation from Dulles to Baltimore in either direction, consequently all passengers desiring Baltimore are best served through Friendship—even if it means a connection with several hours layover at the connection point.

Passengers arriving at Dulles desiring Baltimore have a \$2.50, 45-minute motor coach ride into Washington, a cab to either the railroad or bus station, and then another 45-minute or an hour ride to Baltimore.

There is, however, an hourly \$3, 45-minute limousine service Dulles-Washington National Airport. Again, this does not benefit passengers desiring Baltimore unless there is just no other way to get there.

We will be glad to send you additional maps if you so desire.

HERBERT D. FORD.

Mr. FRIEDEL. Thank you, Mr. Boyd.

Mr. WILLIAMS. Mr. Devine.

Mr. DEVINE. Mr. Chairman, since we anticipate a quorum call shortly I will defer to my colleague, Mr. Macdonald, who I am sure has some questions.

Mr. WILLIAMS. I recognize Mr. Macdonald to go as far as he can go.

Mr. MACDONALD. Mr. Chairman, I was wondering, if the bells interrupt the questioning, would it be possible to have Mr. Boyd return for some questioning on matters dealing with the CAB?

Mr. WILLIAMS. Mr. Boyd, the committee cannot sit this afternoon due to the fact that there is a bill on the floor, a monstrous bill on the floor, on the international WPA operations that will require our presence on the floor and under the rules of the House we can't meet while the bill is under consideration for amendment. Would it be convenient for you to come back in the morning to continue this?

Mr. BOYD. Mr. Chairman, I am planning to leave town immediately after lunch, and it is not something that I just dreamed up.

Mr. WILLIAMS. What would be the first day that you could return?

Mr. BOYD. Monday morning.

Mr. WILLIAMS. Monday morning?

Mr. BOYD. Yes, sir.

Mr. WILLIAMS. Mr. Boyd, will you be available next week?

Mr. BOYD. Yes, sir.

Mr. WILLIAMS. The committee has a problem. As you know, the railroad strike is threatened on August 29 and we have this emergency situation before the Commerce Committee, the parent committee, but I was wondering if we could set this meeting possibly for Tuesday morning, bearing the contingency of the railroad strike situation having to preempt it?

Mr. BOYD. Yes, sir. I will be here at the call of the committee.

#### STATEMENT OF HON. ANCHER NELSEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. NELSEN. Mr. Chairman, before we leave I have a prepared statement. I wonder if I could submit it for the record and give a copy to Mr. Boyd, which would give him a chance to supply information that I would like to have, and, Mr. Chairman, if I may continue, I attended the hearing in the caucus room in the House relative to the new proposed subsidy program for the feeder airlines and as a consequence of the present policy some of our smaller areas are now being denied service in my State.

However, I understand that under the new policy very probably this service will be restored and the gap in between, however, leaves a problem. This statement relates to it, Mr. Chairman, if I may submit it for the record. Also I have nine questions, Mr. Boyd, relative to the Minnesota situation which are for information purposes and I will give you a copy of the statement and the questions if you would be kind enough to have the information for me when you return?

Mr. BOYD. Yes, sir; I would be delighted.

Mr. WILLIAMS. Let it be included in the record.

Mr. MACDONALD. May I ask a question? In the event that the railroad strike develops, which I hope it doesn't, and this railroad legislation makes it necessary that we meet on Tuesday, could we have some arrangement whereby we could be assured of Mr. Boyd's presence sometime later during that week?

Mr. WILLIAMS. Of course, Mr. Boyd would have to answer that question. I couldn't answer that.

Mr. MACDONALD. I was asking Mr. Boyd through you.

Mr. WILLIAMS. Let me say this: I am leaving for Mississippi tomorrow afternoon for the Tuesday primary down there. I am not going to be here next week and this will have to be arranged through Mr. Friedel and the other members of the committee. I feel Mr. Friedel will be very happy to accommodate you, insofar as he can.

Mr. MACDONALD. I was just wondering what Mr. Boyd's schedule was. Wednesday would be impossible, I know, but say Thursday.

Mr. BOYD. Yes, sir. So far as I know, Mr. Chairman, I will be in town all next week and, with one or two minor time exceptions, would be happy to meet with the committee at any time.

Mr. MACDONALD. Thank you.

Mr. WILLIAMS. We will keep in touch with you, Mr. Boyd. Thank you very much.

Mr. BOYD. Thank you, Mr. Chairman.

Mr. WILLIAMS. The committee will adjourn until Tuesday morning at which time we hope to be able to continue.

(The material mentioned follows:)

STATEMENT BY HON. ANCHER NELSEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

The Civil Aeronautics Board has proposed a new program of subsidies for local service airlines, designed, it says, to continue airline service to small- and intermediate-sized communities and, at the same time, to reduce the total costs of subsidies for such service. Its purpose is certainly laudable.

However, on the eve of the publication of its new program, the CAB has reduced various local service airline subsidies, including that of the North Central Airlines which serves the Midwest including three important cities in the second district of Minnesota—Mankato, Fairmont, and Worthington. Result of this action has been the announcement by North Central that, effective September 3, it will reduce its present schedule for two round trips a day to a single round trip—a reduction which is going to be extremely detrimental to these communities and to the areas and businesses they serve.

The question arises in my mind as to the apparent difference between the subsidy reduction policies which have been instituted by the Board in the past year as compared to the subsidy policy projected by the Board in its recent report to the President. What the CAB proposes in its report is that a reduction in total subsidies be effected by reducing subsidy payments on those flights where the airline operates more than seven round trip flights per day. In spite of this policy of concentrating on subsidy reductions, the CAB does declare that "Our policy will also be to require and subsidize a minimum of two daily round trips at practically every intermediate point." Certainly two daily flights are a



necessity unless the communities completely fail to comply with the use-it-or-lose-it rule. And while for short periods some of these communities may have fallen short of the requirement, it seems clear that over the long pull these communities have earned the right to the kind of service they have had.

If it is the intention of the CAB to support the maintenance of two round trips daily to intermediate points on the feeder airline systems and if the subsidy policy is seen as being justified in the future, then it would seem to me that a present policy of the Board which results in reduction in service to one daily round trip would be subject to question. I realize that the CAB, in carrying out the subsidy policies as set forth by the Congress, also must operate with funds appropriated by the Congress. In this respect, I realize that the CAB budget request for subsidy funds was reduced for the 1963 fiscal year. I would like to emphasize, however, that Congressman Thomas, our colleague from Texas, who is chairman of the House Appropriations Subcommittee which handles appropriations for CAB, gave assurance last year on the floor of the House of Representatives that it was not intended that any reduction in CAB funds would affect service on feeder airline operations. On July 30 of last year, Chairman Thomas stated, "All we are attempting to do is to get you better service and, at the same time, get it at the lowest possible cost. As a matter of fact, whatever the costs are, they will be a debt and it is going to have to be paid. This debt will not occur for a number of months in its entirety." Mr. Thomas later agreed with the observation made by the distinguished chairman of the subcommittee when he suggested that, if the appropriated amount should prove to be insufficient, the matter might be further considered by the Appropriations Committee.

This colloquy on the floor of the House last year would seem to me to indicate that it was not intended that the Civil Aeronautics Board should reduce subsidy payments to the feeder airlines so as to result in a reduction in service because of any reduction in appropriations for subsidies. Comments made by the subcommittee chairman seem to indicate that a supplemental request for this purpose would be given sympathetic consideration.

It is my request that this Subcommittee on Transportation and Aeronautics of the House Committee on Interstate and Foreign Commerce conduct a thorough investigation into situations presently affecting local airline service to many cities throughout the country and take whatever steps are indicated to assure continuance of this vital service.

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SUGGESTED QUESTIONS TO BE ASKED OF THE CIVIL AERONAUTICS BOARD AT HEARINGS  
ON AUGUST 22, 1963

1. What prompted the Board's action in effecting reductions in subsidy payments which resulted from the adoption of class rate II, effective January 1, 1963?

2. In your report to the President you make reference to the load factor requirement being increased from 46 percent, effective January 1 of this year, to almost 47 percent, effective July 1 of this year. What occasioned this change effective July 1, 1963?

3. What is the total reduction in subsidies to the 13 feeder airlines which has been brought about by the standards placed in effect in this calendar year?

4. What is the rate of return on investment for North Central Airlines upon which its subsidy accruals have been calculated?

5. What reduction in subsidy accruals can North Central Airlines anticipate for the 1963 calendar year? For the first quarter of calendar 1963? For the first half of calendar 1963?

6. What was your budget request for subsidy payments to the feeder airlines as submitted to the Appropriations Subcommittee for fiscal 1964? How did this amount compare with your agency request submitted to the Bureau of the Budget for fiscal 1964?

7. How will the reduction in service on the Minneapolis-Huron segment as announced by North Central Airlines affect the subsidy payable to North Central Airlines? Will this reduction in service on this segment affect the mail service pay to North Central Airlines?

8. Do you now have any cases pending before the Board involving North Central Airlines service to any points on its system?

9. Would the decision in this case affect the subsidy status in North Central Airlines?

CIVIL AERONAUTICS BOARD,  
Washington, D.C., August 27, 1963.

HON. JOHN BELL WILLIAMS,  
*Chairman, Subcommittee on Transportation and Aeronautics of the House Committee on Interstate and Foreign Commerce, House of Representatives, Washington, D.C.*

DEAR MR. WILLIAMS: At the hearing before your subcommittee on August 22, 1963, the Board was requested to furnish answers to certain questions submitted by Congressman Ancher Nelsen regarding the Board subsidy program. Our responses to these questions are enclosed herewith.

Sincerely yours,

ALAN S. BOYD, *Chairman.*

#### Question 1

"What prompted the Board's action in effecting reductions in subsidy payments which resulted from the adoption of class rate II, effective January 1, 1963?"

#### Answer to question 1

The reasons underlying the Board's decision to effect a reduction in subsidy payments to the local service carriers and the estimated amount of such reduction are detailed in the Board's formal orders establishing the revised class subsidy rate for these carriers as of January 1, 1963. (Orders E-19118, E-19340, and E-19404; Dec. 20, 1962, Mar. 1, 1963, and Mar. 22, 1963, copies of which are being supplied for the record.)

It should be noted that for the 13 carriers as a whole, there was no reduction for the 6-month period January 1 to June 30, 1963. The reduction did not take effect until July 1, 1963.

The Board's orders had two basic purposes: (1) to correct problems for both the Board and the industry which had arisen under the class subsidy rate in effect in calendar year 1961 and 1962 (see order E-19118, p. 1; and order E-19340, pp. 1, 5, 6, and 14); and (2) to take into account the anticipated improvements in the carriers' operations which were estimated to reduce their need for subsidy support to a level which would meet the standards for subsidy payments set forth in section 406 of the act and at the same time be "consistent with the President's transportation message to Congress of April 5, 1962, in which he makes it clear that he considers a future reduction in airline subsidy imperative. It is also consistent with our understanding of the intention of Congress, as regards subsidy levels." (Order E-19118, p. 2.) The Board's orders do not contemplate a reduction in service to the relatively smaller communities served by the local carriers. This was made clear by the Board in its order E-19404 of March 22, 1963, which disposed of a petition by the State of California in which that State objected to possible diminution in its existing air services as a result of the revised class rate. In that order the Board stated:

"Although the revised class rate provides for a reduction in the annual level of subsidy as of July 1, 1963, this reduction is not predicated upon a decrease of service to the relatively smaller communities and such a diminution of service is not at issue in this case. At page 10 of the Statement of Provisional Findings and Conclusions the Board sets forth several factors which it anticipates will enable the carriers to provide necessary services within the framework of the reduced subsidy level. Four of the five factors listed do not relate to volume of service. Only one factor pertains to suspension and deletion of service, and that reflects the Board's anticipation that operating costs and subsidy need will decline as the result of the continuing implementation of our "use-it-or-lose-it" policy. However, this policy long antedates the class subsidy rate for local service carriers and is controlled by self-contained principles established at the time of its inception, not by the provisions of the class rate."

The Board is not aware of the specific reasons for the decision by the management of North Central to reduce services effective September 3, 1963, on its Minneapolis-Huron segment from two daily DC-3 round trips to one round trip per day. Various valid reasons might obtain for such a managerial decision, including among other factors the traffic response to the two round trips during the period that they were provided. In this connection it is the Board's understanding that the average number of passengers boarded at Mankato, Fairmont, and Worthington during the year ended June 30, 1963, in no case was as great as five per day. The class rate was devised in large part to leave with management greater flexibility as to how to conduct its operations. It is possible under the class rate that a given management might seek to maximize profits by reducing services to the weaker traffic points and increasing services to those com-



munities that produce substantially greater volumes of passengers and commercial revenues. The Board does not intend that the class rate shall be utilized to permit carriers to maximize profits by dropping needed services at the smaller stations and increasing operations at the larger stations; and the Board and its staff are currently working on a further revision to the class rate which would effectively negate any incentive on the part of the carriers to do so.

*Question 2*

"In your report to the President you make reference to the load factor requirement being increased from 46 percent, effective January 1 of this year, to almost 47 percent, effective July 1 of this year. What occasioned this change effective July 1, 1963?"

*Answer to question 2*

In the Board's report to the President reference was made by way of example to an increased load factor requirement from 46 percent effective January 1, 1963, to about 47 percent, effective July 1, 1963.

In its findings issued in conjunction with the establishment of class rate II, the Board indicated that it anticipated a reversal in the upward trend of subsidy requirements during calendar year 1963 for a number of reasons. The Board listed several contributing factors toward this result, including factors which would place the carriers in a position to achieve higher load factors. The Board pointed to the fact that the carriers had gained experience in operating modern equipment and that accordingly both the economy of the operations and load factors experienced with this equipment should increase in the near future. The Board also referred to the continuance of its program for the reduction of subsidy through more economic route awards and other certificate proceedings, and to its use-it-or-lose-it program. The implementation of these latter programs, by strengthening the carriers' route systems, would contribute to higher attainable load factors.

*Question 3*

"What is the total reduction in subsidies to the 13 feeder airlines which has been brought about by the standards placed in effect in this calendar year?"

*Answer to question 3*

The revised class subsidy rate effective January 1, 1963, has produced subsidy payments for the first 6 months of 1963 at an anticipated gross annualized level of approximately \$69.5 million. ("Gross" in the sense that each carrier's payment is subject to the customary profitsharing and earnings-deficiency carry forward provisions of the rate formula.) This level approximates the estimated gross payments under the prior class rate formula for the last 6 months of 1962 annualized. In other words, the gross subsidy payments to the 13 local service carriers for the first 6 months of 1963 are substantially the same as those for the last 6 months of 1962. Beginning July 1, 1963, the revised class rate is estimated to produce gross subsidy of \$67.5 million annually or approximately \$2 million less than the gross payment for the fiscal year ending June 30, 1963. Accordingly, while the total reduction anticipated for fiscal year 1964 is \$2 million, calendar year 1963 reflects a reduction of \$300,000 as compared with calendar year 1962.

*Question 4*

"What is the rate of return on investment for North Central Airlines upon which its subsidy accruals have been calculated?"

*Answer to question 4*

Under the current class rate, North Central has the opportunity, as do all the other local service carriers, to earn a rate of return based on 5½ percent on debt and 21.35 percent on equity, or an overall rate of return on investment of approximately 10 percent after taxes. On this basis, for the calendar year 1962, North Central's estimated allowable rate of return was 10.77 percent. In fact, however, the carrier reported a net operating profit (after taxes but before interest) of 14.48 percent before profit sharing, and 12.62 percent after profit sharing with the subsidy payments under the class rate then in effect.

*Question 5*

"What reduction in subsidy accruals can North Central Airlines anticipate for the 1963 calendar year? For the first quarter of calendar 1963? For the first half of calendar 1963?"

*Answer to question 5*

The total subsidy payment estimated for North Central Airlines for calendar year 1963 is \$7,957,840. For the first quarter of calendar 1963 the carrier received subsidy of \$1,932,486, and for the first half of calendar 1963 it received \$3,956,827. The reductions in 1963, as compared with 1962, are as follows: Full year \$568,771; first 6 months, \$289,810; first quarter, \$113,303.

*Question 6*

"What was your budget request for subsidy payments to the feeder airlines as submitted to the Appropriations Subcommittee for fiscal 1964? How did this amount compare with your agency request submitted to the Bureau of the Budget for fiscal 1964?"

*Answer to question 6*

The Board, in its budget estimates for the fiscal year 1964, as submitted to the Congress, requested an appropriation for the payment of subsidies to air carriers during the fiscal year 1964 in the total amount of \$83,775,000. Of this amount, \$67,604,000 was identified with the 13 local service carriers. The above amounts are \$290,000 less than the estimates which the Board had submitted to the Bureau of the Budget and reflect timing adjustments in the payments estimates subsequent to the time the estimates were constructed in August 1962. However, no change was made in the subsidy accrual estimates.

*Question 7*

"How will the reduction in service on the Minneapolis-Huron segment, as announced by North Central Airlines, affect the subsidy payable to North Central Airlines? Will this reduction in service on this segment affect the mail service pay to North Central Airlines?"

*Answer to question 7*

Schedules filed by North Central Airlines on August 12, 1963, indicate that, along with the reduction from two round trips to one round trip on the Minneapolis-Huron segment, substantial additional scheduling changes are being made over the carrier's system, effective September 3, 1963. The computation of subsidy under the class rate formula is based on system operations and is responsive to, among other factors, changes in equipment type, as well as the number of schedules operated. Assuming that the only change the carrier had made was that involving Minneapolis-Huron, the subsidy payment would increase by \$25,185 annually. While it would appear that the subsidy payable should decrease, because of the mechanics of the formula, scheduling changes of this nature can produce random fluctuations. The Board and its staff are currently planning further revisions to the class rate which will correct this situation.

The effect of the reduction of services on the Minneapolis-Huron segments combined with the other scheduling changes could not be computed in the limited time available. However, based on the current forecast of subsidy payments just received from North Central Airlines, the carrier anticipates receiving approximately \$7,989,000 of subsidy for the calendar year 1964 based on its estimates of the schedules and equipment it will operate. This compares with our estimate of \$7,957,840 for the calendar year 1963.

North Central received service mail pay totaling \$467,772 for the year ended June 30, 1963. While the Board does not have data as to the volume of mail carried by North Central to and from Fairmont, Mankato, and Worthington, based on data provided informally by the Post Office Department as regards these cities it appears that the volume of mail related to such cities is but a small fraction of the total mail transported by the carrier. Assuming that the elimination of the one round trip would result in a reduction of the mail to be carried by North Central nevertheless it is estimated that the amount of service mail pay reduction would be minimal.

*Question 8*

"Do you now have any cases pending before the Board involving North Central Airlines service to any points on its system?"

*Question 9*

"Would the decision in this case effect the subsidy status in North Central Airlines?"



*Answers to questions 8 and 9*

As of July 31, 1963, the following cases are active:

*I. Enforcement Proceeding, Docket 14388*

(City of Winona)

The legal issue as to what constitutes two daily round trips at a point is being tried. The subsidy implications are unknown since this is a legal problem.

*II. North Central Area Airlines Service Airport Investigation, Docket 13743*

This case involves the consolidation of services of adjacent points. The following complexes are involved:

- (1) Ashland-Ironwood.
- (2) La Crosse-Winona.
- (3) Appleton-Oshkosh.
- (4) Clintonville-Green Bay.
- (5) Clintonville-Appleton.
- (6) Clintonville-Oshkosh.
- (7) Rhinelander-Land O'Lakes.
- (8) Wausau-Stevens Point/Wisconsin Rapids.
- (9) Marshfield-Stevens Point/Wisconsin Rapids.
- (10) Wausau-Marshfield.
- (11) Wausau-Marshfield-Stevens Point/Wisconsin Rapids.

With respect to subsidy, the actual subsidy amount is unknown since decision is quite a way in the future. However, it is estimated that the carrier's subsidy need may be reduced by approximately \$250,000 annually, but that the carrier's subsidy payments could be reduced by as much as \$600,000 (based on the current class rate). This figure as you know would be subject to change depending upon a number of conditions.

*Michigan Points "Use It or Lose It" Case, Docket 14668*

The question of whether Pontiac, Port Huron, and Cadillac/Reed City should be renewed because of failure to meet "use it or lose it" traffic standards is in issue. If the points were deleted, the subsidy of North Central would be reduced.

*North Central "Use It or Lose It" Case, Docket 14337*

(Regina, Canada)

North Central is presently suspended at Regina, and the issue is whether the carrier's authority should be terminated. No subsidy is involved.

*Michigan Points Area Airline Service Airports Investigation, Docket 14288*

This case has been set for hearing in December 1963 and involves the possible consolidation of individual air services at a single point. The following complexes are involved:

- (1) Jackson-Lansing.
- (2) Battle Creek-Kalamazoo.
- (3) Grand Rapids-Muskegon.
- (4) South Bend-Benton Harbor.
- (5) Jackson-Battle Creek.
- (6) Flint-Saginaw/Bay City.

The amount of subsidy reduction involved in this case is unknown at the present time.

Order No. E-19118

UNITED STATES OF AMERICA, CIVIL AERONAUTICS BOARD

WASHINGTON, D.C.

Adopted by the Civil Aeronautics Board at its office in Washington, D.C., on  
the 20th day of December, 1962

Docket 14080

*In the Matter of the Investigation of the Local Service Class Subsidy Rate*

## ORDER REOPENING RATE

This investigation was instituted by Order E-18911, October 12, 1962, for the purpose of determining whether the local service class subsidy rate established in Docket 12004 should be revised, modified, or amended in the future and, if so, to determine what revisions, modifications, or amendments may be required to serve as a basis for a fair and reasonable class rate to be established by the Board for future operations. Since the institution of the proceeding the Board's staff and representatives of the 13 local service carriers have engaged in informal conferences, pursuant to Rules 311-321 of the Board's Rules of Practice, with the objective of resolving the issues posed by Order E-18911.

The conferees are convinced, as we are, that the class rate concept is preferable to the individual rate-making process for local service carriers from the standpoint of incentives for greater operating efficiency and the elimination of extended open rate periods. Soon after the initiation of the currently effective class rate the Board was aware that the existing class rate would have to be amended in order (1) to eliminate certain inverse incentives inherent therein, (2) to minimize the necessity for *ad hoc* adjustments, and (3) to reverse the upward trend in the level of annual subsidy payments.

After a discussion of the issues and related factual material, most of the conferees have reached tentative agreement on a revised class rate proposal. The Board is studying this tentative agreement as a basis for a revised rate to be effective January 1, 1963. If the Board decides to proceed along the lines of the agreement, it anticipates issuing during January a Statement of Provisional Findings and Conclusions together with an Order to Show Cause proposing the establishment of a revised class rate generally consistent with the consensus reached at the conference. Accordingly, we are now reopening, effective January 1, 1963, the subsidy rates for all local service carriers.

The Board is tentatively of the view, in the light of the provisions of Section 406 of the Federal Aviation Act of 1958, that a net annual subsidy level of \$66 million will meet the needs of the 13 local service carriers, as individuals and as a class, as of July 1, 1963. A subsidy formula which results in a gross subsidy payment of approximately \$67.5 million should provide net subsidy of approximately \$66 million after profit-sharing reductions have been made. Such a view, reflecting the abilities of the carriers to meet the requirements of the commerce of the United States, the national defense, and the Postal Service within the framework of this subsidy level, is, we believe, consistent with the President's Transportation Message to Congress of April 5, 1962, in which he makes it clear that he considers a future reduction in airline subsidy imperative. It is also consistent with our understanding of the intention of Congress, as regards subsidy levels.

The carriers will require a reasonable period within which they can modify their operations under the revised class rate in accordance with the \$66 million net subsidy level. Therefore, the conferees' proposal provides for a scale of rates per available seat-mile, effective January 1, 1963, which would produce an annual gross subsidy level of approximately \$69 million. While this does not represent a substantial change in the current level, it would halt the upward trend and give the carriers the opportunity to make any operational modifica-



tions necessary to adjust their subsidy requirements consistent with the provisions of the formula as of July 1, 1963. On that date the formula would provide for an automatic reduction in the subsidy scale per available seat-mile, which would produce estimated gross subsidy of approximately \$67.5 million, or net subsidy after profit-sharing of \$66 million.

Both the January 1 scale and the July 1 scale would be based on an observed correlation between density of operations and need.<sup>1</sup> They would provide for rates of subsidy payments per available seat-mile which vary inversely with average departures performed per station per day by type of equipment.<sup>2</sup> The average number of departures per station per day is to be computed by dividing the actual departures performed in a given month<sup>3</sup> by one less than the number of airports served by the carrier in that month.

The estimated annual gross subsidy levels which the January 1 and July 1 scales would provide the individual carriers at their forecast level of operations are set forth in the Appendix attached hereto.

The rate tentatively agreed upon also includes a formula for the reduction of the subsidy, computed by multiplying an increasing rate per available seat-mile by the standard seat-miles related to flights in excess of four round-trips per day on those routes or route segments designated by the Board as "subsidy reduction" routes.

Profit-sharing provisions substantially the same as those in the existing class rate are also included in the proposed revision, thus permitting the Board to recapture a portion of the subsidy paid where a carrier's annual earnings (after applicable income taxes) exceed its fair and reasonable differentiated rate of return. Several modifications have been made in the language of the profit-sharing provisions for the purposes of clarification and facility of interpretation, but these would not change the intent or method of administration of the existing provisions.

We note that since the institution of this proceeding the participants in the conference as well as the officers and directors of the carriers have been under the purview of Rule 314 of the Board's Rules of Practice and the provisions of Order E-18911 which prohibit disclosure of conference information or securities transactions. Since this order makes a public disclosure of the facts and issues covered by the conference, we are hereby lifting any restrictions on the future disclosure of conference information or on future securities transactions.

ACCORDINGLY, IT IS ORDERED THAT:

1. The final class subsidy mail rate now in effect for all 13 local service carriers be and it hereby is reopened as of January 1, 1963.<sup>4</sup>

2. The requirements of Rule 314 of the Board's Rules of Practice and the requirements of Order E-18911, insofar as they would otherwise prevent the future disclosure of information obtained at the conference or future dealings in securities by conference participants or officers or directors of the airlines involved, be, and hereby are, terminated.

3. This Order shall be served upon all parties to the Investigation and the Postmaster General.

By the Civil Aeronautics Board:

[SEAL]

HAROLD R. SANDERSON, *Secretary*.

<sup>1</sup> In order properly to reflect the effect of station activity on the need of the carriers, the proposed class rate revision uses average departures per station as its density factor rather than the revenue plane-mile factor set forth in the existing class rate.

<sup>2</sup> The types of equipment are broken down into two categories: (1) DC-3; and (2) all other equipment types currently employed by local service carriers. The subsidy per available seat-mile for "other" equipment is scaled at a lower rate than that set forth for DC-3 equipment.

<sup>3</sup> Exclusive of (1) departures performed as extra sections, (2) departures performed pursuant to authority of either certificates of public convenience and necessity or exemption orders issued under Section 416(b) of the Act which do not include authority to transport mail or which expressly include mail authority on a nonsubsidy eligibility basis, (3) departures performed over route segments or at points for which the authority has lapsed or for which the Board has, pursuant to Part 205 of the Economic Regulations, authorized or required the carrier to suspend operations, and (4) departures performed in all-cargo service.

<sup>4</sup> This Order is not intended to affect the service mail rates established for the local service carriers by other orders of the Board.

## APPENDIX

## LOCAL SERVICE CLASS SUBSIDY RATE

*Estimated annual gross subsidy,<sup>1</sup> by carrier for the periods beginning Jan. 1, 1963, and July 1, 1963*

[In thousands of dollars]

Carrier	Annual gross subsidy		Carrier	Annual gross subsidy	
	Rate scale effective Jan. 1, 1963	Rate scale effective July 1, 1963		Rate scale effective Jan. 1, 1963	Rate scale effective July 1, 1963
Allegheny.....	6,058	5,919	Pacific.....	3,963	3,873
Bonanza.....	3,401	3,323	Piedmont.....	5,628	5,499
Central.....	4,726	4,618	Southern.....	5,607	5,479
Frontier.....	8,145	7,959	Trans-Texas.....	4,797	4,688
Lake Central.....	3,741	3,655	West Coast.....	5,048	4,933
Mohawk.....	4,980	4,866	Total.....	60,165	67,584
North Central.....	8,015	7,831			
Ozark.....	5,056	4,941			

<sup>1</sup> Computed for each carrier's forecast operation—does not reflect any possible reductions related to operations over nonsubsidy routes or for profitsharing provisions.

## Subsidy rate scale per available seat-mile

Departures per station per day	Effective Jan. 1-June 30, 1963		Effective July 1, 1963	
	DC-3	Other	DC-3	Other
	<i>Cents</i>	<i>Cents</i>	<i>Cents</i>	<i>Cents</i>
4.75.....	2.8917	1.9718	2.8254	1.9268
5.00.....	2.5996	1.8147	2.5404	1.7733
6.00.....	2.3151	1.6437	2.2621	1.6062
7.00.....	2.0663	1.4940	2.0192	1.4598
8.00.....	1.8287	1.3614	1.7871	1.3302

E-19340

UNITED STATES OF AMERICA, CIVIL AERONAUTICS BOARD

WASHINGTON, D.C.

Docket No. 14080

*Investigation of the Local Service Class Subsidy Rate*

Adopted: March 1, 1963

STATEMENT OF PROVISIONAL FINDINGS AND CONCLUSIONS

BY THE BOARD:

This investigation was instituted by Order E-18911, October 12, 1962, to determine whether the local service class subsidy rate established in Docket 12004 should be revised, modified, or amended in the future and, if so, to determine what revisions, modifications, or amendments may be required to serve as the basis for a fair and reasonable class rate to be established by the Board for future operations.<sup>1</sup> We have determined that the class rate concept should be con-

<sup>1</sup> On December 20, 1962, we issued Order E-19118 reopening as of January 1, 1963, the original class rate for all thirteen local service carriers.



tinued, but that the original class rate must be amended to embody principles and concepts designed to make future subsidy payments more closely correspond to the fair and reasonable needs of the carriers as related to their future operations and to eliminate certain adverse incentives. By this statement and the accompanying Order to Show Cause we are directing the thirteen local service carriers to show cause why the Board should not establish the revised class rate as herein set forth.

Under the revised class subsidy rate formula, which is summarized below, it is anticipated that the proposed rate to be effective January 1, 1963, will produce subsidy payments for the first six months of 1963 at an annualized level of approximately \$69.5 million, before the operation of the profit-sharing provisions. This aggregate level approximates the estimated gross payment under the prior formula for the last six months of 1962 annualized (Appendix E-2). It is estimated that from July 1, 1963, forward the proposed revised formula will produce an overall estimated level of \$67.5 million annually before profit-sharing or approximately \$2 million less than the estimated payments for the fiscal year ending June 30, 1963.

The subsidy computation scales proposed by the conferees and set forth in our order reopening the rates of all thirteen local service carriers as of January 1, 1963 (Order E-19118, Appendix), were based upon operating forecasts submitted by the carriers during the conference. The rate scales proposed herein (Appendices G-1 and G-2) reflect the impact of revised forecasts subsequently submitted by the carriers. Of course the favorable, downward trend in estimated subsidy levels can be realized only if the carriers' actual operations do not deviate significantly from their forecasts.

The proposed class rate consists of a scale of rates based upon a volume of operations per station as does the existing class rate. The monthly subsidy payable to each carrier under the revised class rate will be based upon (1) the carrier's available seat-miles flown during the month times (2) a rate per seat-mile varying, in accordance with the scale of rates contained in Appendices G-1 and G-2, with the number of departures per station per day performed by the particular carrier in that month.

In addition, the revised class rate provides that no subsidy shall be paid for flights performed in connection with operations which the Board determines shall be conducted on a non-subsidy basis or on a subsidy reduction basis. The rate also provides that where the Board makes the latter determination, a secondary formula shall be applied. This secondary formula reduces the subsidy otherwise payable. The reduction is computed by applying rate per seat-mile (see Appendix G-3) to the seat-miles generated by departures in excess of a stated level of departures per station per day.

Finally, the proposed class rate contains a profit-sharing formula. Under this formula, which is substantially the same as that included in the original class rate, a carrier is required to refund to the Board (1) 50 percent of profits between its differentiated rate of return and a return of 15 percent on investment, and (2) 75 percent of profits in excess of a return of 15 percent on investment. As in the original formula, earnings deficiencies may be carried forward to two future years as an offset against any future excess earnings.

#### GENERAL

On February 16, 1961, we issued Order E-16380 directing the thirteen local service carriers to show cause why the class rate as set forth in the Statement of Provisional Findings and Conclusions which accompanied that order should not be adopted by the Board. On March 7, 1961, we issued Order E-16485 finally fixing the class rate as the fair and reasonable rates of compensation to be paid nine of the thirteen carriers on and after January 1, 1961. The remaining four carriers were subsequently placed under the class rate.<sup>2</sup>

As we stated in Order E-16380, the class rate concept represents a departure from the previous methods of fixing subsidy rates. Therefore, the Board had determined rates for each carrier, either for a past period or for a future period, on the basis of an analysis of the particular carrier's operating results and forecasts. In contrast, the class rate, while constructed on the basis of the needs of the various carriers, is a rate which is developed and stated

<sup>2</sup> Pacific and West Coast—Order E-16542, March 22, 1961; Frontier—Order E-17157, July 12, 1961; Central—Order E-17646, October 30, 1961.

in terms of a class of carriers. Although the amounts payable to any given carrier under a class rate vary in accordance with the rate formula, depending on the volume of service, equipment utilized, and density of operations, the same formula is applicable to all carriers in the group.

Our primary reasons for establishing the original local service class subsidy rate were—

- (1) The incentives for greater operating efficiency, better cost controls, optimum fare levels, and economic scheduling which would result from requiring each carrier to live within a rate determined on the basis of industry results rather than its own particular performance;
- (2) the elimination of extended open-rate periods;
- (3) the establishment of more effective subsidy control by applying the maximum incentive to operate with sound scheduling practices; and
- (4) the fact that under the class rate the carriers would have greater operating flexibility in tailoring operations subject to the general regulatory provisions of the Act other than section 406.

After two years of operations under the class rate, we are convinced that the reasons for its establishment are as applicable today as they were in 1961, and that they justify the continuation of a class rate in the future.

However, after the institution of the original class rate, it became apparent that certain revisions were required in the interests of eliminating adverse incentives, minimizing the necessity for *ad hoc* adjustments,<sup>3</sup> and generally improving the rate in accordance with the purposes for which it was established. Basically, the problem areas involve (1) the sharp impact of the miles per station per day factor on each carrier's subsidy support level and the various adverse incentives related thereto, (2) the impact on subsidy computation under the formula resulting from the introduction of aircraft which have greater seating capacity than the DC-3, and (3) the lack of provision for some form of automatic subsidy reduction in addition to the profit-sharing provisions.

The Board's staff and the industry have been studying various solutions to these problems since early 1962, first through an industry-CAB advisory group and later through the informal mail rate conference procedure implemented by Order E-18911, dated October 12, 1962. During December 1962, most of the conferees reached a general agreement on a revised class rate which they proposed be made effective as of January 1, 1963. The rate proposed herein is essentially the same as that upon which agreement was reached by the conferees. It retains the simplicity of application and administration of the original class rate, is predicated on similar but somewhat modified principles, includes improvements designed to correct the various problem areas outlined above, and attempts to minimize the need for *ad hoc* adjustments.

The class rate concept in air transportation is still in its infancy, and even as revised the proposed rate will not solve all of the problems, whether foreseen or unforeseen. Undoubtedly, problems will arise requiring additional amendments in its future and consequently, the Board's staff will continue its study of the class rate with an eye to improvement through future amendments. However, we are convinced that the revisions proposed herein will improve the class rate significantly in the interests of the public, the carriers, the government, and all concerned.

#### LEGAL BASIS FOR ESTABLISHMENT OF CLASS RATE

##### A. Statutory authority

As we stated in the order proposing the original class rate for local service carriers<sup>4</sup> we are of the opinion that the Board has the legal power to establish class subsidy rates. Section 406(b) of the Act specifically provides that the Board may "fix different rates for different air carriers or classes of air carriers, and different classes of service."

The "need" provision is, of course, the source of our authority to provide subsidy, and that provision speaks in terms of "the need of each such air carrier for compensation" sufficient to enable it to maintain and continue the develop-

<sup>3</sup> The Board found it necessary to make a number of *ad hoc* amendments to the original class rate where it was obvious that, because of equipment acquisitions and new route awards, the subsidy computed under the formula would not correspond to the actual needs as related to the particular operational changes.

<sup>4</sup> Order E-16380, pp. 12-14, dated February 16, 1961.



ment of air transportation to attain the statutory objectives. But we find no inherent inconsistency between the class rate concept and the concept of rates based on individual carrier need. A rate can be fixed for a class of carriers which provides each carrier with a reasonable opportunity to earn an amount equal to its own individual "need" as defined by the statute. Therefore, whether the Board can fix such a rate depends essentially upon the economic and operational characteristics of the carriers as a group and the extent to which inherent differences in the characteristics of a carrier's routes are taken into consideration in constructing the rate formula.

In fact, in a case prior to the establishment of the class rate for local service carriers the Board fixed a class rate containing subsidy for the "Big Four" carriers applicable to the period 1947-1950.<sup>5</sup> The justification for the establishment of that rate was, as it is here, that "the Big Four constitute a homogeneous group for rate-making purposes, and \* \* \* had a comparable opportunity, under conditions of economical and efficient management, to earn a fair profit under a uniform mail rate."<sup>6</sup>

#### *B. Homogeneity of the local service group*

The bases for our finding in Order E-16380 that the thirteen local service carriers belong to the same class remain applicable here.

The principal common characteristic of the local service carriers is the nature of the authority under which they operate. The operating authority embodied in their certificates of public convenience and necessity establishes a class of carriers whose primary purpose is to provide airline service between the smaller cities of the United States and to feed traffic between the smaller cities and larger traffic centers. To insure that the local service carriers provide this type of service, their certificates contain specific limitations and restrictions on the over-flying of intermediate points and the operation of non-stop flights. The certificates also effectively restrict competition by these carriers with trunk lines and with each other, except in certain instances where the public interest dictates otherwise.

The homogeneity of the local-type service and its effect on the economics of local service carrier operations are readily apparent from an examination of their operating results. In the twelve months ended June 30, 1962, the largest and the smallest of the locals experienced traffic volumes of only 6.0 percent and 2.0 percent, respectively, of the average trunk carrier's volume, with the average local service carrier experiencing 3.5 percent of the average trunk carrier's volume. Local service carrier traffic densities, in terms of number of revenue passenger miles per route mile per day, ranged from 52.5 to 266.7 during this same period, as compared with trunk carrier densities ranging from 569.1 to 2492.8 per day.

Other comparisons of significant operating data are set forth in Appendix H.

Type of equipment used by the locals is another indicator of the homogeneity of the class. For many years past, the basic local service aircraft was the DC-3. At one time all of the locals operated DC-3's exclusively. In recent years there has been a movement in the local service industry to phase out the DC-3's in favor of more modern aircraft having capacities of between 36 and 44 seats. At this time all of the locals have acquired some equipment of greater capacity than the DC-3, and some have completely re-equipped. The very fact that the locals all choose similar equipment, although they do not compete with one another, is evidence of the similarity of the character of their operations.

In view of factors such as the foregoing and the data set forth in the Appendices, we find that the thirteen local service carriers can, and should, be placed in the same class for rate-making purposes under section 406 of the Act.

#### CONSTRUCTION OF THE REVISED CLASS RATE

The rate proposed herein is a revision of the existing class rate for the purpose of more closely realizing the benefits envisioned by the Board in establishing the prior class rate. We have found, after two years of experience, that the prior class rate does not react in every case in a manner consistent with the economics of changes in operating characteristics. A basic reason for this is that the rate was scaled to one factor—miles per station per day—and applied to another factor—seat miles. As a result, the prior formula was particularly sensi-

<sup>5</sup> American Airlines, *et al.*, Mail Rates, 14 C.A.B. 558 (1951).

<sup>6</sup> *Ibid.* at page 566.

tive to changes in the number of stations served and ignored the seating capacities of the aircraft utilized. Thus, changes in operating characteristics resulted in subsidy payments which were disproportionate to the needs of the carriers.

The revised class rate, however, utilizes departures per station as its density factor and provides for two separate scales of rates by equipment types. Thus, the scale of subsidy payments can be reasonably related to the anticipated economic impact. We believe that this should minimize the need for *ad hoc* adjustments, and, by moving the subsidy in the proper direction consistent with the economic requirements, should largely curtail certain negative incentives and provide more positive incentives for the carriers to maximize profits through more economical operations.

The revised class rate consists of four principal parts: (1) scales of rates per available seat-mile by type of equipment which vary inversely with departures performed per station; (2) provisions for the exclusion from the computation of subsidy payable of operating statistics for flights which the Board determines should be performed on a non-subsidy or a subsidy reduction basis; (3) a formula for the reduction of subsidy through operations on subsidy reduction routes; and (4) a profit-sharing formula.

#### A. Annual subsidy levels

Annual gross subsidy levels under the original class rate have been steadily increasing since the inception of the rate (Appendix E-1). In calendar year 1961, the first year of operation under the rate, the gross subsidy payments amounted to about \$63.7 million. They increased to approximately \$65.5 million, \$66.7 million, \$67.7 million and \$68.5 million for the annual periods ended March 31, 1962, June 30, 1962, September 30, 1962, and December 31, 1962, respectively. Nevertheless, we expect the upward trend to abate and to begin a reversal during calendar 1963 for the following reasons:

(1) All of the carriers have now had experience in operating more modern equipment and, accordingly, the economy of operations and load factors experienced with this equipment should increase substantially in the near future.

(2) Operating costs should decrease as a result of the suspension or deletion of a number of the uneconomical points previously awarded by the Board on a "use-it-or-lose-it" basis.

(3) The Board will continue to pursue its program for the reduction of subsidy through more economical route awards and other certificate amendment proceedings such as the recently instituted regional airport investigations and the recent cases involving the transfer of more profitable routes from trunk-lines to local service carriers.

(4) The Board will look with favor on proposals of the local service carriers for increasing revenues through tariff amendments where appropriate.

(5) Cost benefits should accrue from the use of joint facilities and other intercarrier agreements currently being formulated.

The revised class rate formula agreed upon by the conferees is designed to halt the upward trend in subsidy levels. It provides for a scale of rates per available seat-mile, effective January 1, 1963, which the conferees estimate will produce gross subsidy for the first six months of 1963 of approximately \$34.5 million and a reduced scale, effective July 1, 1963, which they estimate will result in gross subsidy payments of \$67.5 million per annum. We believe that these levels can be adhered to and are realistic and reasonable. Should deviations from the carriers' forecasts result in substantial increases in subsidy payments it may be necessary to reopen and re-scale the rate proposed herein. Each carrier is expected to stay within the bounds of its forecast and, accordingly, the rate will be monitored closely for this purpose.

We are of the view, in the light of all of the circumstances, that a reduction of the annual gross subsidy level to approximately \$67.5 million starting July 1, 1963, is consistent with the provisions of section 406 of the Act, and that such a sum will meet the needs of the thirteen local service carriers for the purposes set forth in section 406, as individuals and as a class, on and after that date.<sup>1</sup>

<sup>1</sup> The July 1 formula set forth herein should produce approximately \$67.5 million annually in gross subsidy and \$66.2 million annually after profit-sharing reductions have been made, assuming the level of operations currently forecast by the carriers for calendar year 1963.



Undoubtedly, the carriers will require a reasonable period within which they can modify their operations under the revised class rate in accordance with the \$67.5 million gross subsidy level. This is the reason for the conferees' proposal of a scale to be effective from January 1, 1963, through June 30, 1963, which would produce estimated gross subsidy of about \$34.5 million for the six-month period. This does not represent a substantial change in the current level (see Appendix E-2). However, it will immediately halt the upward trend of subsidy payments while the carriers are making such operational and other modifications as may be necessary to adjust their subsidy requirements consistent with the formula which will automatically become effective as of July 1, 1963.

#### *B. Rate scales*

In fixing the original class rate for local service carriers we found that the rate should be based on an observed correlation between density of operations and need, and that the local service carriers' needs per available seat-mile vary inversely with the density of operations.<sup>8</sup> On the basis of our studies of the most recent operating results available, we find these premises hold true today. Consequently, the same methodology was used in formulating the scales for the revised class rate.

In constructing the 1961 rate, it was our judgment, after consideration of various density factors, including both revenue plane-miles per station and departures per station, that the use of revenue plane-miles per station as a base would both correlate the working of the formula to the need of the carriers and provide the managerial incentives we sought. However, we are aware that this factor does not reflect properly the effect of either aircraft capacity or station activity on the subsidy needs of the carriers. The revised class rate attempts to remedy these basic faults. It utilizes departures per station as its density factor and proposes a scale of rates by type of equipment (Appendices G-1 and G-2). This technique generally reflects the capacity each carrier operates and recognizes changes in seat-mile levels which are not reflected by departures alone.

In constructing rate scales applicable to the period commencing January 1, 1963, we were faced with some practical problems. The only actual data available at the time of the informal conferences, were the operating results for the year ended June 30, 1962. The rate scales developed on the basis of this data, when applied to the carriers' forecasts for calendar year 1963, produced excessive subsidy. Moreover it was found that rate scales based on the actual data could not be scaled down by a mechanical formula without creating inequities and problems unfit for particular carriers for the future period. The scales proposed represent the collective judgment of the Board and the carriers as to the rescaling required to produce a minimum of deviations from the anticipated subsidy requirements of the individual carriers and at the same time to produce gross subsidy payments of approximately \$34.5 million for the first six months of 1963 and \$67.5 million per annum effective July 1, 1963. The scales set forth in Appendix G-1 will be effective from January 1, 1963, through June 30, 1963, and those included in Appendix G-2 will automatically become effective on July 1, 1963.

As indicated previously there are two rate scales, one for DC-3 aircraft and one for all other aircraft currently in operation. In each instance the rates decline as the system average number of departures per station per day in a given month increases in recognition of the higher need for DC-3 operations at minimum frequencies. The DC-3 rate is higher than the rate for the larger equipment.<sup>9</sup> The differential between the rate for DC-3 aircraft and the rate for all other equipment is somewhat greater at the lower density factors than at the higher density factors. For example, as indicated in Appendix A-5, at five departures per station per day, there exists a differential of 0.78 cents per available seat-mile whereas at eight departures per station per day the differential is 0.47 cents per available seat-mile. This reflects the need to support a minimum level of operations with high cost DC-3 equipment in low density markets, and recognizes that as density increases it should become relatively more efficient to use larger equipment. It should be noted that no subsidy would

<sup>8</sup> (Provisional Statement), Order E-16380, p. 16.

<sup>9</sup> For example, at a density of five departures per station per day, the DC-3 rate is 2.7 cents per available seat-mile as compared with a rate of 1.9 cents per available seat-mile for all other equipment (Appendix A-5).

be paid for the operation of seat-miles which are related to departures in excess of a system average of eight per station per day. This is based on the premise that carriers operating above this average density, on a system basis, should be achieving load factors sufficiently high so that no additional subsidy support is required.

### C. Non-subsidy and subsidy reduction routes

In the interest of (1) minimizing *ad hoc* adjustments, (2) making the subsidy paid under the formula more closely conform to the needs of the individual carriers, and (3) supplying a method of automatic subsidy reduction where warranted, the revised class rate specific provision for operations which the Board determines should be conducted on a non-subsidy or subsidy reduction basis. Non-subsidy routes, for the purposes of the application of the class rate, are those which the Board finds will neither increase the subsidy requirements of a carrier nor result in such profits as to decrease substantially the subsidy needs of the carrier. Subsidy reduction routes are those which the Board finds will be sufficiently profitable, immediately or at some foreseeable future time, to decrease substantially the subsidy requirements of the carrier. Designations as to the category in which route awards are to be placed have been and will be made in either the Board orders granting the authority or in section 406 orders issued therewith or shortly thereafter.<sup>10</sup>

Flights performed over routes which the Board has determined shall be operated on a non-subsidy or subsidy reduction basis will be excluded in the computation of the subsidy to be paid the carriers under the formula. However, the results of such operations will be included along with the system results in applying the profit-sharing provisions.

To reflect the reduction in subsidy requirements resulting from the substantial profits realized in the operation of subsidy reduction routes, we are including in the revised class rate a formula which will automatically decrease subsidy, otherwise computed, for any month as departures on these routes increase (see Appendix G-3). Specifically, the subsidy computed, without regard to non-subsidy and subsidy reduction operations, will be reduced by the product of an increasing rate per seat-mile flown on subsidy reduction routes times the standard seat-miles related to departures performed on these routes in excess of eight per station per day. The subsidy reduction scale is based on the premise that at eight departures per station per day a load factor of 60 percent will produce revenues which are adequate to equal the subsidy requirements, including return and taxes. A load factor of 65 percent is assumed at 10 departures, and 70 percent at 12 departures and over. The reduction per seat-mile provides an increasing amount of subsidy reduction as frequencies increase. The precise impact on a carrier will depend upon factors such as the type of equipment utilized, the actual costs related to the operation, and the fare structures involved.

In applying the subsidy reduction formula, departures per station per day will be determined by dividing the monthly departures by the product of the days in the month times one less than the number of stations operated. In order properly to reflect the departures performed in relation to the stations operated and to avoid a distortion which would result from the use of skip-stop authority, we have provided that the departures on each skip-stop flight be counted as if the flight had served each terminal and intermediate point designated on the segment as it is certificated.

While our orders will in the future specifically designate the category in which a given operation will fall, it appears that operations under certain authority previously awarded two carriers, Bonanza and Ozark, should be categorized as subsidy reduction operations for the purposes of the revised class rate. The routes involved are as follows:

1. The Las Vegas-Los Angeles non-stop authority granted Bonanza in Orders E-18244 and E-18259, and
2. The authority granted Ozark in Orders E-18590 and E-18842 to provide non-stop and one-stop, via Waterloo, Iowa, service between Sioux City and

<sup>10</sup> The routes transferred from Eastern to Mohawk by Order E-17383, August 14, 1961, and the authority granted Frontier to provide nonstop service between Billings and Salt Lake City and between Billings and Jackson, Wyoming, in Orders E-17494, September 22, 1961, and E-17753, November 22, 1961, were awarded on a non-subsidy basis. Accordingly, the non-subsidy provisions of the revised rate are applicable to them.



Chicago, to provide non-stop service between Sioux City and Waterloo, and to provide service between Sioux Falls, on the one hand, and Sioux City, Waterloo, and Chicago, on the other hand.

The Board found that the Bonanza and Ozark authorizations would result in substantial profits for the respective carriers. Consequently, it withheld the issuance of certificates pending *ad hoc* amendments to the class rate to insure that the formula would not give the carriers subsidy in excess of their needs.<sup>11</sup> It is noted that Bonanza's newly awarded operations were reflected for several months only, and Ozark's awards were not reflected at all in the base year ended June 30, 1962. Both Bonanza and Ozark have agreed to the categorization of these routes as subsidy reduction operations. With the exclusion of these operations from the subsidy computation formula, no subsidy will be paid for operations over these routes, but it should be borne in mind that these operations will not reduce subsidy until the departures exceed eight per station per day.<sup>12</sup>

Although one of the purposes of the non-subsidy and subsidy reduction provisions is to minimize the need for *ad hoc* adjustments, where the application of these provisions will not result in a rate adjustment commensurate with the economic impact of the route change, *ad hoc* adjustments will, of course, be required.

#### D. Profit-sharing

While the proposed revisions in the class rate will result in an improvement over the original class rate, we would point out that the class rate concept is still in the experimental stages. It has not yet been possible to refine it to the point where as few variations in return for the individual carriers will result as would be produced under individually tailored rates.<sup>13</sup> Therefore, the revised class rate includes a profit-sharing element as did the original class rate.

The profit-sharing provisions permit the carriers to retain all earnings up to the allowable rate of return determined in accordance with the principles established by the Board in the *Rate of Return Local Service Carriers Investigation*.<sup>14</sup> Where a carrier's annual earnings (after applicable income taxes) exceed its fair and reasonable differentiated rate of return, such carrier will be required to refund a portion of those profits in accordance with the table set forth in the profit-sharing formula.

The profit-sharing provisions of the revised class rate are basically the same as those of the existing class rate, and it is anticipated that the methods of application will not change. Such changes as have been made have as their basic purpose the clarification of problems in areas which have arisen during the past year, and require no additional explanation here.

#### REASONABLENESS OF REVISED CLASS RATE

Based upon tests of the class rate as applied to the individual carriers and considering the incentives and flexibility which have been built into the formula, we find that the proposed revised class rate is fair and reasonable and meets the need of each air carrier under honest, economical and efficient management for compensation sufficient to maintain and develop air transportation, as required by section 406 of the Act.

Appendix C shows that for the year ended June 30, 1962, a rate scale based on departures per station per day by type of equipment would have resulted in an equitable spread of subsidy among the thirteen local service carriers, and that there will be a close conformance between subsidy payable under such a class rate and the need of the individual carriers. Thus, the deviation between class rate subsidy and the carriers' needs ranges from -19.7 percent for Pacific to +17.9

<sup>11</sup> The *ad hoc* adjustments were made by Orders E-18250, April 24, 1962 (Bonanza); and E-18843, September 28, 1962 (Ozark).

<sup>12</sup> Based on the carrier's forecasts, the subsidy reduction applicable to Bonanza for calendar year 1963 will amount to \$103,301 (see Appendix F-2), whereas Ozark will not be affected immediately since its forecast schedules do not exceed eight departures per station per day.

<sup>13</sup> Where an individual subsidy rate appears to result in subsidy in excess of individual need, we would ordinarily reopen the rate to restore the subsidy to a fair and reasonable level. However, a class rate is necessarily geared to the need of each carrier as a member of the class, and the resultant variations are inherent therein.

<sup>14</sup> Order E-15696, August 26, 1960. In that case the Board found that each carrier's return should be based on a rate of 5.5 percent on debt capital and 21.35 percent on common equity capital, as applied to the carrier's own capital structure, with a floor of nine percent and a ceiling of 12.75 percent of total investment, but in no event less than three cents per revenue plane mile flown.

percent for Southern before profit-sharing reductions, and from Pacific's -19.7 percent to Southern's +6.8 percent after profit-sharing. Not considering Pacific and Lake Central, both of whom present special situations which are discussed below, such deviation ranges from -8.6 percent to +6.8 percent after profit-sharing reductions.

Another example of the equitable nature of the type of formula we propose may be found in Appendix D, which shows, for the base period, the deviation between class rate return and each carrier's differentiated return as a percent of estimated subsidy need. This deviation ranges from -13.7 percent to +3.2 percent after profit-sharing, or, excluding Lake Central and Pacific, from -4.1 percent to +3.2 percent.

The range in rates of return for the base period, after federal income taxes and profit-sharing, is from Lake Central's -4.19 percent to Central's +16.64 percent. We should note, however, that no class rate will produce the precise return required by each carrier. Some variation in return is inevitable even under the best formula. Nevertheless, we are convinced that the spread of subsidy under the type of formula we propose will be well within the zone of reasonableness, and that the revised class rate will afford each of the members of the class a reasonable opportunity to earn a fair return on investment, assuming honest, economical and efficient management at the level of operations required by the public interest.

It appears from the data in Appendices C and D that two carriers, Pacific and Lake Central, may have substandard earnings under the new rate. But an analysis of the circumstances peculiar to each of these carriers reveals that for the future period beginning January 1, 1963, the revised rate will meet their needs as well as those of the other eleven local service carriers.

Pacific's problem seems to stem primarily from its system yield which is now the lowest in the local service industry. However, a very small increase in yield undoubtedly will improve its profit position substantially, and the fare increase instituted by the carrier on February 1, 1963, will go a long way toward alleviating its yield problems. Moreover, the operation of routes granted Pacific in the *Pacific-Southwest Area Case*<sup>15</sup> should show a profit in the near future, thereby improving the carrier's economic position. We have found that these routes should be profitable after the initial year of operations,<sup>16</sup> which is now drawing to a close.

Lake Central has excellent prospects for the improvement of its economic condition. One of its problems stems from the fact that it was the last local service carrier to introduce higher density aircraft on its system. Current indications are that its operating costs are decreasing as it gains more experience with the recently acquired equipment. Moreover, an improvement in the carrier's system yield will result from a fare increase instituted in November 1962, and from increased revenues which will be realized from the operation of relatively lucrative routes, such as the Cincinnati-Detroit route, now that the initial period of integration of both routes and equipment is over.

We should note here that both Pacific and Lake Central, as well as the other locals, will have sufficient flexibility under the revised class rate to adjust their economic requirements consistent with the provisions of the formula.

#### RATE FORMULA

On the basis of the foregoing findings and conclusions, we find that the fair and reasonable rates of compensation on and after January 1, 1963, to be paid—

Allegheny Airlines, Inc.  
Bonanza Air Lines, Inc.  
Central Airlines, Inc.  
Frontier Airlines, Inc.  
Lake Central Airlines, Inc.  
Mohawk Airlines, Inc.  
North Central Airlines, Inc.

Ozark Air Lines, Inc.  
Pacific Air Lines, Inc.  
Piedmont Aviation, Inc.  
Southern Airways, Inc.  
Trans-Texas Airways, Inc.  
West Coast Airlines, Inc.

for the transportation of mail by aircraft, the facilities used and useful therefor and the services connected therewith, between the points between which the carrier has been, is presently, or hereafter may be authorized to transport

<sup>15</sup> Order E-17950, January 23, 1962.

<sup>16</sup> Order E-18286, May 1, 1962.



mail by its certificates of public convenience and necessity are the sum of (a) the service mail rates as heretofore and hereafter established for the carrier by Board orders pursuant to section 406(c) of the Act and (b) the subsidy rates for the carrier as set forth in the paragraphs below.

I. The subsidy rate for each calendar month on and after January 1, 1963, shall be the rates per available seat-mile flown, by aircraft types, on the basis of the carrier's average number of departures per station per day in the month, as determined in accordance with Appendix G-1 for the period through June 30, 1963, and as determined in accordance with Appendix G-2 for the period on and after July 1, 1963. These rates shall be applied to the related available seat-miles flown by aircraft types during the month. This computation shall be made in accordance with the provisions and definitions set forth below.

A. The number of departures performed shall be computed on the basis of the actual departures performed over the carrier's routes pursuant to its flight schedules filed with the Board,<sup>17</sup> exclusive of (1) departures performed as extra sections, (2) departures performed pursuant to authority of either certificates of public convenience and necessity or exemption orders issued pursuant to section 416(b) of the Act which do not include authority to transport mail or which expressly include mail authority on a non-subsidy eligibility basis, (3) departures performed over route segments which the Board has, pursuant to Part 205 of the Economic Regulations, authorized the carrier to suspend for economic (as opposed to operational) reasons, or the departures performed in serving a point which the Board has authorized the carrier to suspend for economic (as opposed to operational) reasons, (4) departures performed in all-cargo service, and (5) departures performed in operations authorized by the Board on a non-subsidy or subsidy reduction basis for the purposes of this order.

B. The available seat-miles flown each month (rounded to the nearest thousand) shall be the product of:

(1) The revenue plane miles flown, computed on the direct airport-to-airport mileage between the points actually served on each revenue trip operated over the carrier's route pursuant to its flight schedules filed with the Board,<sup>17</sup> but exclusive of (a) trips flown as extra sections, (b) trips flown pursuant to authority of either certificates of public convenience and necessity, or exemption orders issued pursuant to section 416(b) of the Act, which do not include authority to transport mail or which expressly include mail authority on a non-subsidy eligibility basis, (c) trips flown over route segments which the Board has, pursuant to Part 205 of the Economic Regulations, authorized the carrier to suspend for economic (as opposed to operational) reasons, or the extra mileage involved in serving a point which the Board has authorized the carrier to suspend for economic (as opposed to operational) reasons, (d) trips flown in all-cargo service, and (e) trips performed in operations authorized by the Board on a non-subsidy or subsidy reduction basis for the purposes of this order; and,

(2) The standard number of seats for the respective aircraft types as follows:

Aircraft type:	Standard seats
DC-3	24
CV-240, 340, 440; M-202, 404; F-27	40

C. The term "station days" shall be deemed to be the cumulative product of the airports operated for the carrier times the number of days each is served during the month pursuant to Board authorizations; provided, however, that any airport serving a point exclusively on (a) trips flown as extra sections, (b) trips flown pursuant to authority of either certificates of public convenience and necessity, or exemption orders issued pursuant to section 416(b) of the Act, which do not include authority to transport mail or which expressly include mail authority on a non-subsidy eligibility basis, (c) trips flown over route segments which the Board has, pursuant to Part 205 of the Economic Regulations, authorized the carrier to suspend for economic (as opposed to operational) reasons, or the extra mileage involved in serving a point which the Board has authorized the carrier to suspend for economic (as opposed to operational) reasons, (d) trips flown in all-cargo service, and (e) trips flown in operations authorized by the Board on a non-subsidy or subsidy reduction basis for the

<sup>17</sup> For purposes of this order, flagstop operations shall be included as departures performed and as points served regardless of whether or not physical landing and departure are actually made.

purposes of this order shall not be included in the computation of station days. In computing the cumulative product of station days, the number of days in the month shall be based on the number of days in the calendar month exclusive of days on which operations are completely suspended due to a strike or similar work stoppage. On any days of partial reduction of operations due to strikes or similar work stoppage, when departures performed by the carriers are less than 90 percent of the departures scheduled to be performed for such days, such days shall be counted as a reduced number of days to be arrived at by multiplying the number of such days by the ratio of (1) the departures performed on such days divided by (2) the product of the departures scheduled to be performed on such days<sup>18</sup> times the system average performance factor of the carrier during the corresponding month or months of the prior year. The cumulative product of station days as computed above, shall be further reduced by the number of days in the calendar month (to reduce the average number of stations operated by one).

D. The average departures per station per day shall be computed as the quotient, to two decimal places, of the departures performed during the calendar month, pursuant to section I.A. above, divided by the station days operated during the calendar month, as set forth in section I.C.

E. The density of operations factor determined in section I.D, shall be used to determine the subsidy rates set forth in Appendices G-1 and G-2. These rates shall be multiplied by the applicable<sup>19</sup> standard available seat-miles flown during the same calendar month, as computed in accordance with section I.B. The cumulative product derived shall be the computed subsidy for the carrier's subsidy operations.

F. The subsidy computed under section I above shall be reduced by an amount determined by applying the rate per available seat-mile related to the average departures per station per day, as set forth in Appendix G-3, to the standard available seat-miles flown in excess of 8.00 departures per station per day under operations performed pursuant to Board designation as subsidy reduction for purposes of this order. In computing such reduction the following provisions and definitions apply:

(1) The number of departures performed during each calendar month shall be computed on a point-to-point operation of each trip flown over designated subsidy reduction routes counting any and all intermediate points, whether served or overflowed, as though physical landings and departures had been performed;

(2) The available seat-miles flown each month (rounded to the nearest thousand) on subsidy reduction operations shall be the product of (a) the revenue plane miles flown, computed on the direct airport-to-airport mileage between the points actually served on each revenue trip operated over the carrier's subsidy reduction routes; and (b) the standard number of seats for the respective aircraft types as set forth in section I.B. (2) above;

(3) "Station days" shall be deemed to be the cumulative product of the airports operated for the carrier times the number of days each is served during the month pursuant to Board authorizations; provided, however, that where a city is served by more than one airport, and service is not provided between these airports, such city shall be counted as one station. Airports which are not exclusively served on designated non-subsidy operations and are counted in computing station days for subsidy computation under section I above, shall be concurrently and duplicatively counted in computing station days for designated subsidy reduction operations. In computing the cumulative product of station days under this section, the number of days in the month shall be based on the number of days in the calendar month exclusive of days on which operations are completely suspended due to a strike or similar work stoppage. On any days of partial reduction of operations due to strikes or similar work stoppage, when the departures performed by the carrier are less than 90 percent of the departures scheduled to be performed for such days, such days shall be counted as a reduced number of days to be arrived at by multiplying the number of such days by the ratio of (1) the departures performed on such days divided by (2) the product of the departures scheduled to be performed on such days<sup>20</sup> times the system average per-

<sup>18</sup> Based on the carrier's official schedules on file with the Board on the last day prior to work stoppage.

<sup>19</sup> The DC-3 rate times the available seat-miles flown with DC-3 aircraft; the other than DC-3 rate times the available seat-miles flown in aircraft other than DC-3.

<sup>20</sup> Based on the carrier's official schedules on file with the Board on the last day prior to work stoppage.



formance factor of the carrier during the corresponding month or months of the prior year. The cumulative product of the station days, as computed above, shall be further reduced by the number of days in the calendar month (to reduce the average number of stations operated by one).

(4) In computing the departures performed per station per day for each month on subsidy reduction routes the provisions of section I. D. shall apply.

(5) The available seat-miles related to average departures in excess of 8.00 per station per day shall be computed as follows: (a) divide the available seat-miles as computed under section I. F. (2) by the average daily departures per station computed under section I. F. (4); and (b) multiply the average daily departures in excess of 8.00 as derived under section I. F. (4) by the available seat-miles per daily departure per station as determined in item (a) of this paragraph.

G. The subsidy otherwise payable to the carrier under this section I above shall be reduced by the amount of any adjusted annual capital gain in accordance with the provisions set forth in Appendix B to Order E-14104, dated June 24, 1959, as such Appendix B may be amended from time to time, and said Appendix B is hereby incorporated therein by reference.

H. The subsidy otherwise payable to the carrier under this section I above shall be subject to reduction in accordance with the Profit-Sharing terms and conditions specified in II below.

II. The annual subsidy otherwise due and payable to each carrier pursuant to I above, shall be subject to reduction to the extent that the carrier's earnings for calendar year 1963 and each succeeding calendar year exceed the carrier's fair and reasonable differentiated rate of return, in accordance with the provisions set forth below. In the event that this class rate terminates prior to the last day of a calendar year and is not superseded by a class rate containing profit-sharing provisions, the subsidy otherwise due and payable to each carrier pursuant to section I for any such period of less than a calendar year shall be subject to reduction in like manner, *provided* that the results of the carrier for such period shall be adjusted to eliminate reasonable distortions.

A. Each carrier's fair and reasonable differentiated rate of return shall be the weighted average rate of return arrived at by applying rates of 21.35%, 7.5% and 5.5% to the common stock equity, preferred stock equity and debt components of recognized investment, respectively; provided that (1) the maximum rate of return computed in accordance with the preceding portion of this paragraph shall not exceed 12.75% (after applicable income taxes) and shall not be less than 9.00% (after applicable income taxes), and (2) in no event shall the fair and reasonable differentiated rate of return be less than the equivalent of three cents (after applicable income taxes) per revenue plane mile flown (in accordance with the definition of revenue plane miles flown as defined in I. B. (1) above).

B. In any case where a carrier's annual earnings (after applicable income taxes) exceed its fair and reasonable differentiated rate of return, such carrier shall refund a portion of such profits to the extent indicated in the Table below to the Board as subsidy not due the carrier:

*Percentage of Profits Refunded by Carrier*

Rate of return (after taxes):	
0 percent to D <sup>21</sup> .....	0
D to 15 percent.....	50
Over 15 percent.....	75

<sup>21</sup> D represents the fair and reasonable differentiated rate of return for each carrier as defined in II. A, above.

The refund otherwise due and payable to the Government pursuant to this section shall be increased by the amount of the income tax savings estimated to accrue to the carrier as the result of such refund.

C. In applying the Table in B, above, the amounts due to be refunded to the Board in any calendar year shall be determined by offsetting against profits exceeding the differentiated rate of return in that year, the amount of any earnings deficiency of the carrier in the two preceding calendar years. An earnings deficiency is defined as the amount by which the carrier's earnings (after applicable income taxes) in a calendar year are less than the fair and reasonable differentiated return specified in II, A, above.

III. In applying the provisions of II, above, the revenues and other income items, expenses, investment and income taxes shall be determined in accordance with the provisions of this section III.

#### A. Revenues

1. The revenues shall be those reported by each carrier on its Form 41 reports to the Board, provided that such reports are consistent with the reporting requirements of the Act and the Board's Regulations (particularly Part 241, of the Board's Economic Regulations) and that such reports reflect accounting practices consistent with the carrier's practices in reports for prior periods, except in cases where the carrier obtains, in the final computation under this section III, Board approval of a change for purposes of this order.

2. The revenues reported but not complying with 1, above, shall be adjusted to comply therewith in applying the provisions of II, above.

3. Revenues reported from non-transport activities or from transactions with affiliates shall be excluded unless the profit (after income taxes) to the carrier from such activities exceeds the fair and reasonable differentiated rate of return for the carrier for air transport operations, in which case such excess shall be utilized for the purpose of II, above. For the purpose of this entire section III, the term affiliate (or affiliated) shall be deemed to include any "associated company" as defined in Section 03 of the Uniform System of Accounts, or any relationship defined as "affiliated" in Sec. 261.8(b) of the Board's Economic Regulations, as amended.

#### B. Operating expenses

1. The operating expenses shall be those reported by each carrier on its Form 41 reports to the Board, provided that such reports are consistent with the reporting requirements of the Act and the Board's Regulations (particularly Part 241, of the Board's Economic Regulations) and that such reports reflect accounting practices consistent with the carrier's accounting in previous periods, except in cases where the carrier obtains, in the final computation under this section III, Board approval of a change for the purpose of this order, and, provided further, that reporting and accounts not complying with this paragraph 1, shall be adjusted to comply therewith in applying the provisions of II, above.

2. The operating expenses otherwise reported or determined in accordance with paragraph 1, above, shall be subject to the conditions set forth below.

3. *Non-allowable expenses:* The following expense items shall not be recognized and shall be disallowed:

a. Any expense prohibited by the Act, or any other provision of law, or regulation of the Board or other agency of Government;

b. Fines or other similar penalties accrued, or paid, as the result of violation of law or in violation of any association rule or by-law;

c. All financing costs and costs related to financing;

d. Lobbying costs;

e. Compensation, in any form whatsoever, paid directly or indirectly to or on behalf of any officer, director, or employee, of the carrier in excess of \$25,000 per annum;

f. Any payment made directly or indirectly, in any form whatsoever, to or on behalf of any officer, director or employee of the carrier, or to or on behalf of any stockholder owning in excess of a one percent stock interest, to the extent that such payment exceeds the reasonable value of the goods or services received;

g. Any payment to directors, officers, or employees in the nature of bonuses related to profits or representing a sharing of profits;

h. Any form of dues (including initiation fees) expensed on behalf of the carrier or any officer or director, unless such dues are for membership in a business, professional or trade organization;

i. Any self-insurance or other accruals requiring Board approval of the basis of accrual, unless approved for both accounting and subsidy purposes by the Board;

j. Expenses incurred or accrued for route proceedings in which the carrier is an unsuccessful applicant, or is an intervenor, or participates pursuant to Rule 14 of the Board's Rules of Practice;

k. Expenses in proceedings before the Board for witnesses other than the carrier's personnel or consultants hired by the carrier;

l. Contributions for charitable or similar purposes;

m. Premiums for life insurance on the life of any officer, director or employee where the company is a named beneficiary; provided however, that the proceeds



of any such life insurance shall not be considered revenue of the carrier for the purposes of this section III;

n. Expenses incurred in non-transport activities except to the extent that such expenses are offset against revenues from such activities in accordance with III.A.3., above;

o. Any expense related to stock options granted to employees where the amount charged is based on the difference between the option price and the market value of the stock;

p. Any other expense which is not reasonably related to the air transport services of the carrier.

4. The following expenses shall be capitalized and deferred as set forth below:<sup>22</sup>

a. Expenses incurred or accrued by a carrier for proceedings involving the issuance, alteration, amendment, modification or suspension of authority granted by the Board in a certificate of public convenience and necessity or exemption and for preparation for the operation of new routes pursuant to such action shall be held in suspense, for the purposes of this order, pending final determination of the matter. Subject to the other provisions of section III, and particularly section III.B.3.j., such expenses shall be recognized by amortization over a period of five years, or, in the case of a new route award, over the duration of the award if less than five years. The amortization shall commence as of the effective date of the newly issued certificate or exemption, or as of the date of institution of the change in service whichever is later.

b. Expenses incurred or accrued for projects involving the integration of new types of aircraft or services and other preparations for alterations in operational characteristics, and those projects of a non-recurring nature shall be held in suspense pending completion of the project. Subject to the other provisions of section III, such expenses shall be recognized by amortization over a period of five years commencing as of the date of completion of the project.

5. Accruals to obsolescence and deterioration reserves for flight equipment spare parts shall be recognized only to the extent indicated below:

(1) For DC-3 flight equipment spare parts, the accrual shall be recognized insofar as it does not exceed one percent per month of the value of the inventory properly recorded in account 1310; for other piston and turbine powered flight equipment spare parts the accrual shall be recognized insofar as it does not exceed one-half of one percent per month of the inventory properly recorded in account 1310.

(2) The maximum reserve accrual to be recognized shall be 50 percent of the applicable inventory properly recorded in account 1310. Charges to expense resulting from increasing the reserve accrual above 50 percent shall not be recognized.

6. The following expenses shall be recognized to the extent indicated below:

a. Expenses incurred by the carrier in dealings with an affiliate (including a separately operated division) shall be recognized only to the extent that the charges by the affiliate do not exceed cost plus a proper share of overhead, including a capital cost (at a level not in excess of the air carrier's own fair and reasonable differentiated rate of return) and applicable income taxes;

b. Costs which result from transactions not at arm's length, dealings involving conflicts of interest, or involving fraud shall be recognized only to the extent that such costs do not exceed reasonable levels;

c. In case the carrier enters into a sale of equipment with a provision for lease-back of such equipment or similar equipment, any cost exceeding that which would have been incurred had such sale and lease-back not occurred will not be recognized.

7. The depreciation expense to be recognized for flight equipment (including hulls and all related flight components) shall be subject to the following additional special rules and conditions:

a. For flight equipment acquired and placed into service prior to January 1, 1961, the recognizable expense shall be based on the remaining depreciable value recorded as of December 31, 1960, plus the depreciable cost of any betterment or improvement subsequent to that date, provided that such value does not exceed

<sup>22</sup> Notwithstanding the provisions of subsections a. and b., of this section, where the Board, prior to January 1, 1961, has established a final subsidy rate which would otherwise be applicable on and after January 1, 1961, amortization shall be recognized as per such final rate order.

the depreciated original cost, including betterments or improvements, of such equipment to the air carrier;<sup>23</sup>

b. For flight equipment acquired and placed into service on or after January 1, 1961, the recognizable expense shall be based on the depreciable original cost of such equipment (including betterments, or improvements and capitalized interests) to the carrier;

c. The minimum service lives and residual values to be recognized for flight equipment (including hulls and all related components) shall be as set forth in the following table:

Equipment type	Service life (years)	Percent residual value
DC-3	3	10
All other piston-powered aircraft	7	15
Turboprop aircraft	10	15

d. The service life of each aircraft type shall be deemed to commence as of the date of its introduction into regularly scheduled service. The remaining service life for aircraft placed into service prior to January 1, 1961, shall be computed by subtracting from the years of service life assigned by the carriers,<sup>24</sup> the service life expired prior to January 1, 1961, for which depreciation has been accrued by the carrier for such flight equipment.

e. The remaining depreciable value derived in subsections a. and b., above, shall be spread out equally each month from January 1, 1961, forward over the remaining service life derived in subsection d., above.

f. For the purpose of this paragraph 7, the otherwise recognizable depreciable cost for aircraft hulls and engines shall be reduced by the value of the "built-in-overhaul," such value to be determined at a reasonable level consistent with prior and anticipated experience; *Provided*, however, that where aircraft are maintained on a "block" overhaul basis, the depreciable cost shall be reduced by an amount equal to the value of the overhaul remaining at run-out-time<sup>25</sup> before the block overhaul is performed, plus an amount representing the value of the hours remaining at acquisition to the next block overhaul,<sup>26</sup> regardless of whether the required overhaul procedures are completed in one stage or in multiple stages within the authorized block; *Provided further*, that where aircraft are maintained on a "continuous" overhaul basis, the depreciable cost shall be reduced by 50 percent of the value of the "built-in-overhaul."

8. Maintenance charges will be recognized consistent with the built-in-overhaul principle of amortization of overhaul costs. Accruals to a reserve for future overhauls and overhauls expensed on a cash basis will not be recognized. However, where overhauls are maintained on a "continuous" basis, cash expensing of each overhaul procedure will be recognized if the charges to expense for each accounting period approximate those charges which would have obtained under the overhaul amortization principle.

### C. Investment

1. Subject to the same requirements as to compliance with the Act and the Board's Regulations, as set forth in III. A. and B. above, the investment shall be the average of the balance sheets reported for the four quarters of calendar year, for which section II, above, is being applied, and the year-end balance sheet for the immediately preceding year, with one-half weight accorded the opening and closing balance sheets.

2. The investment shall be subject to the additional special rules and conditions set forth below:

<sup>23</sup> Where a final subsidy rate has been established for a carrier applicable to a period, prior to January 1, 1961, the remaining depreciable value recognized for the purposes of this order shall not exceed the cost based on the depreciable value and depreciation rates recognized in such final order (or orders).

<sup>24</sup> Subject to the minimum service lives as set forth in section III. B. 6. c., above.

<sup>25</sup> In a four block overhaul this would be expressed as 37½ percent of the estimated "one-shot" overhaul cost. The run-out percentage for a five block overhaul would be 40%, for six—41½%, etc.

<sup>26</sup> Determined by: (a) dividing the estimated "one-shot" overhaul cost by the total authorized hours; and (b) applying the rate per hour determined in (a), to the block overhaul hours remaining at acquisition.



- a. Notes payable due beyond three months shall be treated at long-term debt;
- b. Non-operating property shall be excluded;
- c. The air carrier's investment in any affiliated or non-transport activity shall be recognized only in the event that the profits (after income taxes) reported by the air carrier from such company or activity exceed the fair and reasonable differentiated return of the air carrier and such profits are utilized to reduce the air carrier's subsidy, otherwise payable under section I, above.
- d. The investment shall not include the cash or other value of any life insurance policy covering any company executive;
- e. The investment shall not include equipment replacement funds derived from sale of flight equipment, but such funds shall be recognized only when re-invested in property which is productive in the carrier's transport operations;
- f. The investment shall not include equipment purchase deposits, capitalized organizational expense, capital stock expense, unamortized discount and expense on debt, and/or special funds such as sinking funds as specified in Account 1550 in the Uniform System of Accounts;
- g. Working capital in excess of the equivalent of three months' operating expenses, exclusive of depreciation and amortization, shall be excluded;
- h. Reserves accrued through charges to operating expense (except depreciation, airworthiness and other valuation reserves) will be treated as a current liability for the purpose of this paragraph C;
- i. Funds reflected in construction work in progress related to properties prior to their entry into useful service shall be recognized only if capitalized interest on such funds is not claimed as a part of the carrier's investment rate base;
- j. In computing working capital for periods commencing January 1, 1963, accruals of subsidy payable for each balance sheet date shall be made pursuant to the rate established by this Order; *Provided*, however, where a mail rate period is open prior to January 1, 1963, such working capital shall reflect the subsidy payable to the air carrier pursuant to the most recent Board order fixing the carrier's subsidy rate for such period.

#### *D. Other income and nonoperating expenses*

In applying section II, above, all income to the carrier (other than retroactive subsidy and capital gains on flight equipment qualifying pursuant to section 406(d) of the Act and the Board's Regulations, thereunder) shall be included whether such income is recorded as revenue, non-operating income and/or Special Income; but only the following classes of non-operating expenses shall be recognized:

- 1. Capital losses on ground equipment; and
- 2. Non-routine foreign exchange adjustments.

E. Where an adjustment is required and effective pursuant to the provisions of paragraph III. A. or B. or C. or D. above, such appropriate adjustments shall be made for the purpose of all other provisions of this section II, where sound accounting practice and consistency so require.

#### *F. Income taxes*

Federal and State income taxes shall be determined on the basis of the carrier's income tax returns for each year as submitted to the taxing authorities, with such amendments or revisions as may have been filed as of the date of the financial determination of excess profits; *Provided*, that the impact of net operating loss carrybacks and carryovers will be included in determining income taxes to be recognized; *Provided further*, that for the purposes of this section, taxes related to capital gains or to income from non-transport ventures, to the extent that such income is not otherwise used as a reduction of subsidy, and to awards of retroactive subsidy shall not be recognized.

Carriers whose tax returns are filed for a 12-month period not coinciding with a calendar year shall submit a *pro forma* tax return for the calendar year, which return shall be prepared on bases consistent with the returns of that carrier filed for the last fiscal year with the appropriate tax authorities.<sup>27</sup>

An appropriate order will be entered.

BOYD, Chairman, MURPHY, Vice Chairman, GURNEY, MINETTI and GILLILLAND, Members, concurred in the above Statement.

<sup>27</sup> A reconciliation of such *pro forma* return with the carrier's reported operating results will be required.

APPENDIX A-1  
*Local service class subsidy rate—Hypothetical application of class rate by carrier, 12 months ended June 30, 1963*

	Allegheny	Bonanza	Central	Frontier	Lake Central	Mohawk	North Central	Ozark	Pacific	Piedmont	Southern	Trans-Texas	West Coast	Total
Actual departures: <sup>1</sup>														
DC-3	12,753		65,215	63,980	74,116	4,337	138,825	86,549	2,722	36,412	91,317	53,436	42,623	672,285
All other	79,785	36,453	12,422	24,065	13,687	71,069	44,074	15,315	48,027	57,786	7,916	26,064	31,276	407,999
Total	92,538	36,453	77,637	88,045	87,803	75,406	182,899	101,864	50,749	94,198	99,233	79,500	73,899	1,140,284
Average number of stations	37.1	20.2	46.0	61.3	40.7	27.0	72.3	43.4	24.4	35.3	52.0	38.8	44.8	543.3
Average departures per station per day <sup>2</sup>	7.03	5.21	4.73	4.00	6.06	7.95	7.03	6.59	5.04	7.62	5.33	5.77	4.62	5.89
Subsidy rate (cents):														
DC-3	2.2011		2.8977	3.0000	2.4433	1.9808	2.2011	2.3108	2.4736	2.0838	2.6286	2.5168	2.6310	
All other	1.6410	1.8716	1.9864	2.0600	1.7577	1.5547	1.6410	1.6935	1.7781	1.8950	1.8554	1.7660	2.0216	
Available seat-miles (000): <sup>3</sup>														
DC-3	22,908		129,762	142,192	127,371	8,157	290,275	177,819	3,974	89,023	170,518	118,328	78,513	1,314,600
All other	372,081	183,271	45,081	128,447	49,172	297,879	165,309	64,371	197,811	197,994	34,353	113,466	140,886	1,990,121
Computed subsidy (000)	\$6,605	\$3,430	\$4,617	\$6,912	\$3,976	\$4,793	\$8,442	\$6,199	\$3,606	\$4,266	\$5,277	\$5,016	\$5,140	\$97,618
Break-even need (000) <sup>4</sup>	4,938	1,781	3,815	6,332	4,100	3,786	6,806	3,730	3,088	3,216	3,081	4,140	3,987	53,810
Income before taxes (000)	1,647	1,649	802	580	-214	1,007	1,636	1,469	518	1,380	1,296	1,876	1,162	13,808
Profit sharing (000)		80	309				301	487		28	499	100		\$1,804
Computed taxes (000) <sup>5</sup>		654	230	216		284	558	440	80	492	316	345	482	4,613
Income after profit sharing and taxes dollars (000)	1,131	915	263	364	-214	723	777	542	438	860	481	431	680	7,391
Percent of investment	8.43	11.78	16.64	8.07	-4.19	7.17	12.26	15.63	5.33	10.59	13.58	13.77	11.07	9.08

<sup>1</sup> Excludes those operations ineligible for subsidy.

<sup>2</sup> Determined by dividing the total actual departures by the number of station-days less 1 station at 365 days.

<sup>3</sup> Based on standard seats: 24 for DC-3; 40 for all other flight equipment.

<sup>4</sup> See appendix B-2.

<sup>5</sup> Net taxes to carrier after profit sharing adjustment. (See app. A-4.)



## APPENDIX A-2

*Local service class subsidy rate—Scale of subsidy rates per available seat-mile as related to average departures per station per day, 12 months ended June 30, 1962*

Average departures per station per day	DC-3 equipment	All other equipment
	<i>Cents</i>	<i>Cents</i>
4.50 and under .....	3.0000	2.0600
5 .....	2.7125	1.9000
6 .....	2.4583	1.7650
7 .....	2.2083	1.6438
8 .....	1.9688	1.5500

## APPENDIX A-3

*Local service class subsidy rate—Calculation of profit sharing, by carrier hypothetical application of class rate, 12 months ended June 30, 1962*

	Allegheny	Bonanza	Central	Frontier	Lake Central	Mohawk	North Central	Ozark	Pacific	Piedmont	Southern	Trans-Texas	West Coast	Total
Investment (thousands) <sup>1</sup>	\$13,414	\$7,762	\$1,578	\$4,517	\$5,121	\$10,081	\$6,338	\$3,469	\$8,213	\$8,122	\$3,545	\$3,130	\$6,147	\$81,437
Return element (thousands) . . . . .	\$1,229	\$877	\$201	\$563	\$461	\$938	\$632	\$436	\$863	\$847	\$336	\$388	\$716	\$8,477
Percent of investment . . . . .	9.16	11.29	12.75	12.25	9.00	9.31	9.66	12.57	10.51	10.42	9.49	12.38	11.65	10.41
Income after tax <sup>2</sup> . . . . .	\$1,131	\$853	\$411	\$564	\$214	\$723	\$921	\$776	\$438	\$874	\$721	\$479	\$680	\$8,237
Percent of investment . . . . .	8.43	12.28	26.04	8.07	-4.19	7.17	14.54	22.36	5.32	10.76	20.34	15.30	11.06	10.14
Profit sharing to Government (thousands):														
"P" to 15-50 percent . . . . .		\$38	\$18				\$144	\$42		\$14	\$98	\$41		\$395
Over 15-75 percent . . . . .			130					192			142	7		471
Total . . . . .														
Tax reduction on Government share (thousands) . . . . .		38	148				144	234		14	240	48		866
Total profit sharing (thousands) . . . . .		42	161				157	233		14	259	52		938
		80	309				301	487		28	499	100		1,804

<sup>1</sup> Based on the weighted average of 5 balance sheets.

<sup>2</sup> Before profit sharing.



## APPENDIX A-4

*Local service class subsidy rate—Calculation of Federal income taxes hypothetical application of class rate, 12 months ended June 30, 1962*

[In thousands of dollars]

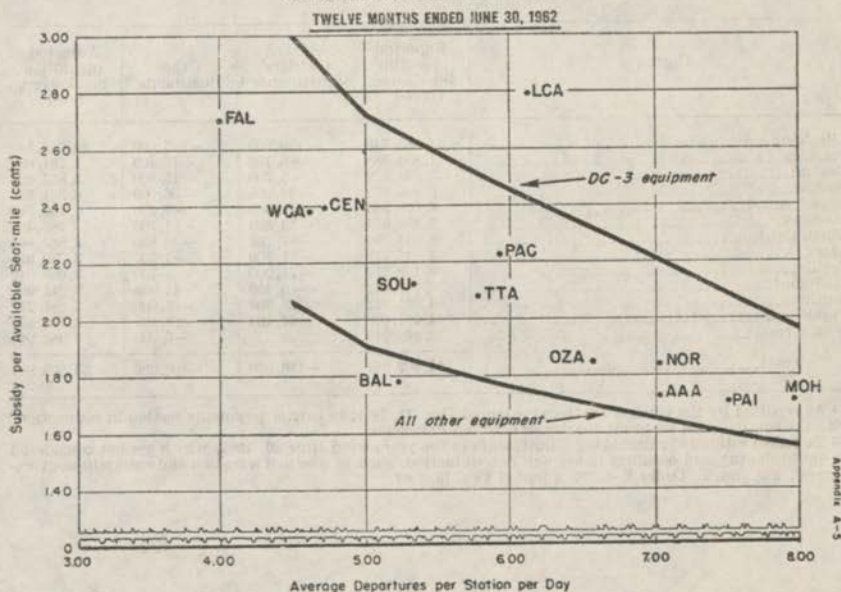
Carrier	Income before tax and profit sharing <sup>1</sup>	Reported interest expense	Taxable income	Income tax at 52 percent less \$5,500	Tax reduction for profit sharing <sup>2</sup>	Total income tax
Allegheny.....	1,647	645	1,002	516	-----	516
Bonanza.....	1,649	300	1,349	696	42	654
Central.....	802	40	762	391	161	230
Frontier.....	580	155	425	216	-----	216
Lake Central.....	214	195	-----	-----	-----	-----
Mohawk.....	1,007	450	557	284	-----	284
North Central.....	1,636	251	1,385	715	157	558
Ozark.....	1,469	125	1,344	603	253	440
Pacific.....	518	353	165	80	-----	80
Piedmont.....	1,380	396	984	506	14	492
Southern.....	1,296	179	1,117	575	259	316
Trans-Texas.....	876	102	774	397	52	345
West Coast.....	1,162	224	938	482	-----	482
Total.....	13,808	3,415	10,802	5,551	938	4,613

<sup>1</sup> App. A-1.

<sup>2</sup> App. A-3.

## LOCAL SERVICE CLASS SUBSIDY RATE

SUBSIDY RATES AND ADJUSTED SUBSIDY REQUIREMENT PER AVAILABLE SEAT-MILE RELATED TO  
AVERAGE DEPARTURES PER STATION PER DAY



## APPENDIX B-1

*Local service class subsidy rate—Computation of estimated subsidy need, 12 months ended June 30, 1962*

Carrier	Adjusted operating break-even need <sup>1</sup>	Differentiated rate of return <sup>2</sup>	Provision for taxes <sup>3</sup>	Estimated subsidy need
Allegheny.....	\$4,958,140	\$1,228,680	\$621,500	\$6,808,320
Bonanza.....	1,781,088	876,574	613,171	3,270,833
Central.....	3,815,020	201,207	163,448	4,179,675
Frontier.....	6,331,359	553,236	419,890	7,304,485
Lake Central.....	4,190,746	460,887	277,119	4,928,752
Mohawk.....	3,785,457	498,461	517,266	5,241,184
North Central.....	6,805,895	632,453	401,851	7,840,199
Ozark.....	3,730,078	436,163	325,280	4,491,501
Pacific.....	3,088,012	863,008	541,019	4,492,039
Piedmont.....	3,215,992	846,672	476,562	4,539,226
Southern.....	3,981,242	336,281	158,362	4,475,885
Trans-Texas.....	4,139,829	387,458	298,097	4,825,384
West Coast.....	3,986,946	715,881	520,970	5,223,797
Total.....	53,809,804	8,476,961	5,334,515	67,621,290

<sup>1</sup> App. B-2.

<sup>2</sup> App. B-3.

<sup>3</sup> App. B-4.

## APPENDIX B-2

*Local service class subsidy rate—Computation of adjusted break-even need, 12 months ended June 30, 1962*

Carrier	Reported operating break-even need	Carriers' adjustments <sup>1</sup>	Other adjustments <sup>2</sup>	Adjusted operating break-even need
Allegheny.....	\$5,063,740	-\$20,600	-\$85,000	\$4,958,140
Bonanza.....	1,834,588	-6,100	-47,400	1,781,088
Central.....	3,835,520	-5,500	-15,000	3,815,020
Frontier.....	6,406,859	-39,000	-36,500	6,331,359
Lake Central.....	4,059,346	141,000	-9,600	4,190,746
Mohawk.....	3,859,657	-59,500	-14,700	3,785,457
North Central.....	6,944,395	-87,700	-50,800	6,805,895
Ozark.....	3,745,778	-11,200	-4,500	3,730,078
Pacific.....	3,159,712	-71,000	-700	3,088,012
Piedmont.....	3,267,342	-6,450	-44,900	3,215,992
Southern.....	4,025,942	23,300	-68,000	3,981,242
Trans-Texas.....	4,207,029	-44,100	-23,100	4,139,829
West Coast.....	3,992,946	-	-6,000	3,986,946
Total.....	54,402,854	-186,850	-406,200	53,809,804

<sup>1</sup> As reported by the carriers for the year ended Dec. 31, 1961, to carrier payments section in connection with the computation for profit sharing or earnings deficiency.

<sup>2</sup> To reflect estimated ratemaking adjustments to the year ended June 30, 1962, which are not considered for profit sharing and earnings deficiency determination, such as accrued vacation and entertainment expenses. See app. E, Order E-16380, adopted Feb. 16, 1961.



APPENDIX B-3

*Local service class subsidy rate—Reported and adjusted investment, 12 months ended June 30, 1962*

[In thousands]

	Reported investment <sup>1</sup>			Adjustments <sup>2</sup>			Adjusted investment		Differentiated return	
	Long-term debt	Preferred Equity	Common Equity	Long-term debt	Preferred Equity	Common Equity	Long-term debt	Preferred Equity	Common Equity	Percent of adjusted investment
Allegheny.....	\$10,012	---	\$3,116	\$203	---	---	\$10,317	---	\$3,097	9.16
Bonanza.....	4,457	---	2,869	469	---	---	4,926	---	2,826	11.29
Central.....	4,416	---	2,732	269	---	---	4,685	---	2,595	12.75
Frontier.....	1,955	---	1,311	339	---	---	2,294	---	1,330	12.25
Lake Central.....	2,314	---	3,016	639	---	---	2,955	---	1,923	9.40
Mohawk.....	6,789	2,446	5,068	329	---	---	7,118	\$163	4,901	9.31
North Central.....	3,807	---	2,424	780	---	---	4,587	---	2,422	12.57
Ozark.....	1,588	---	1,868	740	---	---	2,328	---	1,702	9.38
Pacific.....	1,532	---	1,588	369	---	---	1,901	---	1,438	12.42
Piedmont.....	5,080	---	3,607	538	---	---	5,618	---	3,593	10.49
Southern.....	6,073	---	5,142	474	---	---	6,547	---	4,663	12.38
Trans-Texas.....	2,337	---	3,229	316	---	---	2,653	---	2,882	11.63
West Coast.....	1,373	---	1,390	398	---	---	1,771	---	1,359	10.41
West Coast.....	3,432	---	2,886	331	---	---	3,763	---	2,884	10.41
Total.....	49,687	2,009	25,293	3,018	-284	-887	54,705	2,325	24,406	8,477

<sup>1</sup> Based on a weighted average of 5 balance sheets.

<sup>2</sup> To reflect the following:

I. Direct adjustments:

(a) Long-term debt:

1. Less: Unamortized discount and expense on debt.
2. Add: 75 percent of notes payable.
3. Less: Advances from nontransport division.

(b) Preferred equity:

1. Less: Unamortized capital stock expense.

(c) Common equity:

1. Less: Unamortized capital stock expense.
2. Less: Pension plan liability.

II. Prorate adjustments:

1. Less: Investment in nontransport division.
2. Less: Special funds.
3. Less: Nonoperating property and equipment.
4. Less: Other intangibles.

## APPENDIX B-4

*Local service class subsidy rate—Estimated return and computed tax requirement, 12 months ended June 30, 1962*

Carrier	Differentiated return element	Interest expense	Taxable income	Provision for taxes <sup>1</sup>
Allegheny.....	\$1,228,680	\$644,410	\$584,270	\$621,500
Bonanza.....	876,574	299,993	576,581	613,171
Central.....	201,207	39,755	161,452	163,448
Frontier.....	553,236	155,088	398,168	419,890
Lake Central.....	460,887	194,508	266,379	277,119
Mohawk.....	938,461	450,408	488,053	517,266
North Central.....	632,453	250,937	381,516	401,851
Ozark.....	436,163	125,346	310,817	325,260
Pacific.....	863,008	353,029	509,979	541,019
Piedmont.....	846,672	396,192	450,480	476,562
Southern.....	336,281	179,524	156,757	158,362
Trans-Texas.....	387,458	101,715	285,743	298,097
West Coast.....	715,881	224,409	491,472	520,970
Total.....	8,476,961	3,415,294	5,061,667	5,334,515

<sup>1</sup> Taxable income less \$5,500, divided by 48 percent plus interest expense, less return.

## APPENDIX C

*Local service class subsidy rate—Comparison of class rate subsidy with individual carrier need, 12 months ended June 30, 1962*

[In thousands]

Carrier	Estimated subsidy need <sup>1</sup>	Class rate subsidy <sup>2</sup>		Percentage deviation of class rate subsidy from need	
		Before profit sharing	After profit sharing	Before profit sharing	After profit sharing
Allegheny.....	\$6,808	\$6,605	\$6,605	-3.0	-3.0
Bonanza.....	3,271	3,430	3,350	4.9	2.4
Central.....	4,180	4,617	4,308	10.5	3.1
Frontier.....	7,304	6,912	6,912	-5.4	-5.4
Lake Central.....	4,929	3,976	3,976	-19.3	-19.3
Mohawk.....	5,241	4,793	4,793	-8.6	-8.6
North Central.....	7,840	8,442	8,141	7.7	3.8
Ozark.....	4,492	5,199	4,712	15.8	4.9
Pacific.....	4,492	3,606	3,606	-19.7	-19.7
Piedmont.....	4,539	4,596	4,568	1.3	.6
Southern.....	4,476	5,277	4,778	17.9	6.8
Trans-Texas.....	4,825	5,016	4,916	4.0	1.9
West Coast.....	5,224	5,149	5,149	-1.4	-1.4
Total.....	67,621	67,618	65,814	0	-2.7

<sup>1</sup> App. B-1.

<sup>2</sup> App. A-1.



## APPENDIX D

*Local service class subsidy rate—Rate of return<sup>1</sup> on investment under class rate formula, 12 months ended June 30, 1962*

	Rate of return on investment (percent)			Deviation of class rate return from differentiated return		Class rate return deviation as percent of estimated subsidy need	
	Differ- entiated rate	Class rate		Before profit sharing	After profit sharing	Before profit sharing	After profit sharing
		Before profit sharing	After profit sharing				
				Thou- sands	Thou- sands		
Allegheny.....	9.16	8.43	8.43	-\$98	-\$98	-1.4	-1.4
Bananza.....	11.29	12.28	11.78	76	38	2.3	1.2
Central.....	12.75	26.04	16.64	210	61	5.0	1.5
Frontier.....	12.25	8.07	8.07	-189	-189	-2.6	-2.6
Lake Central.....	9.00	-4.19	-4.19	-675	-675	-13.7	-13.7
Mohawk.....	9.31	7.17	7.17	-215	-215	-4.1	-4.1
North Central.....	9.98	14.53	12.26	289	145	3.7	1.8
Ozark.....	12.57	22.36	15.63	340	106	7.6	2.4
Pacific.....	10.51	5.33	5.33	-425	-425	-9.5	-9.5
Piedmont.....	10.42	10.76	10.59	27	14	.6	.3
Southern.....	9.49	20.34	13.58	385	145	8.6	3.2
Trans-Texas.....	12.38	15.30	13.77	91	43	1.9	.9
West Coast.....	11.65	11.07	11.07	-36	-36	-.7	-.7
Average total.....	10.41	10.14	9.08	-220	-1,086	-.3	-1.6

<sup>1</sup> After computed Federal income tax.

## APPENDIX E-1

*Local service class subsidy rate—Gross subsidy, by carrier, after ad hoc adjustments before profit sharing*

Carrier	For the years ended—				
	Dec. 31, 1961	Mar. 31, 1962	June 30, 1962	Sept. 30, 1962	Dec. 31, 1962 <sup>1</sup>
Allegheny.....	\$6,346,515	\$6,423,748	\$6,449,162	\$6,464,844	\$6,490,172
Bananza.....	3,321,606	3,344,607	3,307,859	3,261,517	3,208,201
Central <sup>2</sup> .....	3,889,309	4,228,660	4,423,318	4,656,528	4,712,636
Frontier.....	6,860,477	6,988,538	7,053,724	7,091,901	7,204,863
Lake Central.....	3,941,254	4,179,737	4,190,870	4,188,657	4,194,757
Mohawk.....	4,351,032	4,487,937	4,565,979	4,600,660	4,639,204
North Central.....	8,269,500	8,366,621	8,526,449	8,673,134	8,841,737
Ozark.....	4,557,199	4,590,531	4,676,913	4,730,280	4,652,211
Pacific.....	3,936,537	3,968,400	3,983,458	4,056,995	4,132,528
Piedmont.....	4,491,392	4,636,050	4,704,789	4,738,840	4,838,361
Southern.....	4,430,894	4,704,909	4,963,755	5,267,492	5,521,615
Trans-Texas.....	4,022,549	4,306,618	4,543,673	4,680,457	4,770,661
West Coast.....	5,303,833	5,295,459	5,293,179	5,308,048	5,321,676
Total.....	63,722,007	65,521,815	66,685,128	67,719,353	68,528,022

<sup>1</sup> Data for the month of December are preliminary.

<sup>2</sup> Reflects subsidy payments made to Central during 1961 as follows: (1) final rate per Order E-15753, Sept. 8, 1960, for the period Jan. 1-Mar. 12; (2) temporary rate per Order E-17565, Oct. 10, 1961, for the period Mar. 13-Sept. 30; and (3) the prior class rate on and after Oct. 1.

Source: Carrier Payments Section, Office of Carrier Accounts and Statistics.

## APPENDIX E-2

*Local service class subsidy rate—Annualizations of adjusted gross subsidy for July through December 1962 and as forecast for January-June 1963*

	Gross subsidy by months	Ad hoc adjustments	Adjusted gross subsidy	Daily average	Annualized
1962					
July.....	\$6,167,424	—\$239,367	\$5,928,057	\$191,228	\$69,798,220
August.....	6,233,246	—239,367	5,993,879	193,351	70,573,115
September.....	5,934,500	—239,367	5,695,133	189,838	69,290,870
October.....	6,191,542	—287,472	5,904,070	190,454	69,515,710
November.....	5,968,048	—287,472	5,680,576	189,353	69,113,845
December <sup>1</sup> .....	6,123,266	—287,472	5,835,794	188,251	68,711,615
July-December 1962.....	36,618,026	—1,580,517	35,037,509	190,421	69,503,665
As forecast, January-June 1963..	34,474,000	-----	34,474,000	190,464	69,519,360

<sup>1</sup> Data for the month of December are preliminary.



APPENDIX F.—Local service class subsidy rate—Application of class rate effective July 1, 1963, to carriers' forecast operations for calendar year 1963

	Allegheny	Bonanza	Central	Frontier	Lake Central	Mohawk	North Central	Ozark	Pacific	Piedmont	South-east	Trans-Texas	West Coast	Total
Total departures <sup>2</sup> .....	102,800	38,244	87,748	101,621	78,846	81,978	175,251	108,742	62,790	122,179	111,551	81,154	73,670	1,224,574
Average number of stations.....	37.2	19.5	46	62	41	28	71.3	44	30	42	55	36	44	566
Average departures per station per day <sup>1</sup> .....	7.78	5.66	5.34	4.56	5.40	8.32	6.83	6.80	5.93	8.16	5.66	6.35	4.69	6.18
Subsidy rate (cents):														
DC-3.....	1.3419	1.6424	2.4156	2.7905	2.3991	2.9332	2.0340	2.0422	1.9979	1.7304	2.3276	2.1502	2.7905	-----
All other.....	1.3419	1.6424	1.6953	1.9030	1.6854	1.2932	1.4603	1.4707	1.5979	1.2880	1.6424	1.5308	1.9030	-----
Available seat-miles (thousands):														
DC-3.....	453,240	200,205	125,266	126,917	122,081	376,669	179,903	169,536	234,645	418,979	182,520	87,886	78,514	1,032,179
All other.....	453,240	200,205	90,557	236,094	53,698	376,669	285,204	95,505	234,645	418,979	182,520	169,769	140,877	2,907,865
Gross computed subsidy (thousands) <sup>3</sup> .....	\$6,082	\$3,288	\$4,561	\$5,084	\$3,854	\$4,758	\$7,843	\$4,867	\$3,749	\$5,422	\$5,757	\$4,407	\$4,872	\$67,584
Subsidy reduction (thousands) <sup>1</sup> .....	\$6,082	\$3,185	\$4,561	\$5,084	\$3,854	\$4,758	\$7,843	\$4,867	\$3,749	\$5,422	\$5,757	\$4,407	\$4,872	\$67,584
Net subsidy (thousands).....	\$6,082	\$3,185	\$4,561	\$5,084	\$3,854	\$4,758	\$7,843	\$4,867	\$3,749	\$5,422	\$5,757	\$4,407	\$4,872	\$67,481

<sup>1</sup> Adjusted to reflect operation of all stations currently authorized.<sup>2</sup> For subsidy eligible operations only.<sup>3</sup> Determined by dividing the total actual departures by the number of station days, less 1 station at 365 days.<sup>4</sup> Related to subsidy reduction operations in excess of 8 departures per station per day.<sup>5</sup> Before profit sharing.

## APPENDIX F-2

*Local service class subsidy rate—Subsidy reduction for nonsubsidy operations  
forecast for calendar year 1963*

Forecast actual departures: <sup>1</sup>	Bonanza
DC-3	-----
All other	4,336
Total	4,336
Average number of stations, less 1	1
Average departures per station per day	11.88
Subsidy reduction rate per available seat-mile (cents) <sup>2</sup>	0.7760
Forecast available seat-miles (thousands)	40,760
Available seat-miles per departure per station per day (thousands)	3,431
Available seat-miles in excess of 8 departures per station per day (thousands) <sup>3</sup>	13,312
Computed subsidy reduction	\$103,301

<sup>1</sup> Related to nonsubsidy operations.

<sup>2</sup> Applicable to nonsubsidy operations in excess of 8 departures per station per day.

<sup>3</sup> Available seat-miles per departure per station per day times the average departures per station per day in excess of 8.

## APPENDIX G-1

## LOCAL SERVICE CLASS SUBSIDY RATE

*Subsidy rate per DC-3 available seat-mile at system density factors from 4.75 to 8 departures per station per day<sup>1</sup> for subsidy operations effective Jan. 1, 1963*

	0.00	0.01	0.02	0.03	0.04	0.05	0.06	0.07	0.08	0.09
	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents
4.7						2.8917	2.8800	2.8683	2.8566	2.8450
4.8	2.8333	2.8216	2.8099	2.7982	2.7865	2.7749	2.7632	2.7515	2.7398	2.7281
4.9	2.7194	2.7048	2.6931	2.6814	2.6697	2.6580	2.6463	2.6347	2.6230	2.6113
5.0	2.5996	2.5868	2.5739	2.5611	2.5482	2.5354	2.5225	2.5097	2.4968	2.4840
5.1	2.4711	2.4583	2.4454	2.4326	2.4197	2.4068	2.3939	2.3811	2.3682	2.3554
5.2	2.3427	2.3299	2.3170	2.3042	2.2913	2.2785	2.2656	2.2528	2.2399	2.2271
5.3	2.2142	2.2014	2.1885	2.1757	2.1628	2.1500	2.1371	2.1243	2.1114	2.0986
5.4	2.0701	2.0573	2.0444	2.0316	2.0187	2.0059	1.9930	1.9802	1.9673	1.9545
5.5	1.9264	1.9136	1.9007	1.8879	1.8750	1.8622	1.8493	1.8365	1.8236	1.8108
5.6	1.7979	1.7851	1.7722	1.7594	1.7465	1.7337	1.7208	1.7080	1.6951	1.6823
5.7	1.6538	1.6410	1.6281	1.6153	1.6024	1.5896	1.5767	1.5639	1.5510	1.5382
5.8	1.5143	1.5015	1.4886	1.4758	1.4629	1.4501	1.4372	1.4244	1.4115	1.3987
5.9	1.3792	1.3664	1.3535	1.3407	1.3278	1.3150	1.3021	1.2893	1.2764	1.2636
6.0	1.2351	1.2223	1.2094	1.1966	1.1837	1.1709	1.1580	1.1452	1.1323	1.1195
6.1	1.0956	1.0828	1.0699	1.0571	1.0442	1.0314	1.0185	1.0057	0.9928	0.9800
6.2	0.9461	0.9333	0.9204	0.9076	0.8947	0.8819	0.8690	0.8562	0.8433	0.8305
6.3	0.8010	0.7882	0.7753	0.7625	0.7496	0.7368	0.7239	0.7111	0.6982	0.6854
6.4	0.6459	0.6331	0.6202	0.6074	0.5945	0.5817	0.5688	0.5560	0.5431	0.5303
6.5	0.4952	0.4824	0.4695	0.4567	0.4438	0.4310	0.4181	0.4053	0.3924	0.3796
6.6	0.3445	0.3317	0.3188	0.3060	0.2931	0.2803	0.2674	0.2546	0.2417	0.2289
6.7	0.2138	0.2010	0.1881	0.1753	0.1624	0.1496	0.1367	0.1239	0.1110	0.0982
6.8	0.1675	0.1547	0.1418	0.1290	0.1161	0.1033	0.0904	0.0776	0.0647	0.0519
6.9	0.0460	0.0332	0.0203	0.0075	0.0046	0.0017	0.0000	0.0000	0.0000	0.0000
7.0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
7.1	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
7.2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
7.3	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
7.4	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
7.5	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
7.6	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
7.7	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
7.8	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
7.9	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
8.0	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

<sup>1</sup> Based on average number of stations served reduced by 1.

<sup>2</sup> For density factors less than 4.75 the rate shall be 2.8917 cents per available seat-mile.

<sup>3</sup> The rate for density factors above 8 departures per station per day shall be computed by multiplying the rate of 1.8287 cents by the ratio of 8 to such density factors above 8.



Subsidy rate per all other available seat-mile<sup>1</sup> at system density factors from 4.75 to 8 departures per station per day<sup>2</sup> for subsidy operations effective Jan. 1, 1963

	0.00	0.01	0.02	0.03	0.04	0.05	0.06	0.07	0.08	0.09
	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents
4.7						1.9718	1.9655	1.9592	1.9529	1.9467
4.8	1.9404	1.9341	1.9278	1.9215	1.9152	1.9090	1.9027	1.8964	1.8901	1.8838
4.9	1.8775	1.8713	1.8650	1.8587	1.8524	1.8461	1.8398	1.8336	1.8273	1.8210
5.0	1.8147	1.8130	1.8113	1.8096	1.8079	1.8061	1.8044	1.8027	1.8010	1.7993
5.1	1.7976	1.7959	1.7942	1.7925	1.7908	1.7890	1.7873	1.7856	1.7839	1.7822
5.2	1.7805	1.7787	1.7771	1.7754	1.7737	1.7719	1.7702	1.7685	1.7668	1.7651
5.3	1.7634	1.7617	1.7600	1.7583	1.7566	1.7548	1.7531	1.7514	1.7497	1.7480
5.4	1.7463	1.7446	1.7429	1.7412	1.7395	1.7377	1.7360	1.7343	1.7326	1.7309
5.5	1.7292	1.7275	1.7258	1.7241	1.7224	1.7206	1.7189	1.7172	1.7155	1.7138
5.6	1.7121	1.7104	1.7087	1.7070	1.7053	1.7035	1.7018	1.7001	1.6984	1.6967
5.7	1.6950	1.6933	1.6916	1.6899	1.6882	1.6864	1.6847	1.6830	1.6813	1.6796
5.8	1.6779	1.6762	1.6745	1.6728	1.6711	1.6693	1.6676	1.6659	1.6642	1.6625
5.9	1.6608	1.6591	1.6574	1.6557	1.6540	1.6522	1.6505	1.6488	1.6471	1.6454
6.0	1.6437	1.6422	1.6407	1.6392	1.6377	1.6362	1.6347	1.6332	1.6317	1.6302
6.1	1.6287	1.6272	1.6257	1.6242	1.6227	1.6212	1.6197	1.6183	1.6168	1.6153
6.2	1.6138	1.6123	1.6108	1.6093	1.6078	1.6063	1.6048	1.6033	1.6018	1.6003
6.3	1.5988	1.5973	1.5958	1.5943	1.5928	1.5913	1.5898	1.5883	1.5868	1.5853
6.4	1.5838	1.5823	1.5808	1.5793	1.5778	1.5763	1.5748	1.5733	1.5718	1.5703
6.5	1.5688	1.5674	1.5659	1.5644	1.5629	1.5614	1.5599	1.5584	1.5569	1.5554
6.6	1.5539	1.5524	1.5509	1.5494	1.5479	1.5464	1.5449	1.5434	1.5419	1.5404
6.7	1.5389	1.5374	1.5359	1.5344	1.5329	1.5314	1.5299	1.5284	1.5269	1.5254
6.8	1.5239	1.5224	1.5209	1.5194	1.5180	1.5165	1.5150	1.5135	1.5120	1.5105
6.9	1.5090	1.5075	1.5060	1.5045	1.5030	1.5015	1.5000	1.4985	1.4970	1.4955
7.0	1.4940	1.4927	1.4913	1.4900	1.4887	1.4874	1.4860	1.4847	1.4834	1.4821
7.1	1.4807	1.4794	1.4781	1.4768	1.4754	1.4741	1.4728	1.4715	1.4701	1.4688
7.2	1.4675	1.4662	1.4648	1.4635	1.4622	1.4608	1.4595	1.4582	1.4569	1.4555
7.3	1.4542	1.4529	1.4516	1.4502	1.4489	1.4476	1.4463	1.4449	1.4436	1.4423
7.4	1.4410	1.4396	1.4383	1.4370	1.4357	1.4343	1.4330	1.4317	1.4304	1.4290
7.5	1.4277	1.4264	1.4250	1.4237	1.4224	1.4211	1.4197	1.4184	1.4171	1.4158
7.6	1.4144	1.4131	1.4118	1.4105	1.4091	1.4078	1.4065	1.4052	1.4038	1.4025
7.7	1.4012	1.3999	1.3985	1.3972	1.3959	1.3945	1.3932	1.3919	1.3906	1.3892
7.8	1.3879	1.3866	1.3853	1.3839	1.3826	1.3813	1.3800	1.3786	1.3773	1.3760
7.9	1.3747	1.3733	1.3720	1.3707	1.3694	1.3680	1.3667	1.3654	1.3641	1.3627
8.0 <sup>4</sup>	1.3614									

<sup>1</sup> Per available seat-mile flown on aircraft currently operated by the local service carrier other than DC-3.

<sup>2</sup> Based on average number of stations served reduced by 1.

<sup>3</sup> For density factors less than 4.75 the rate shall be 1.9718 cents per available seat-mile.

<sup>4</sup> The rate for density factors above 8 departures per station per day shall be computed by multiplying the rate of 1.3614 cents by the ratio of 8 to such density factors above 8.

## APPENDIX G-2

## LOCAL SERVICE CLASS SUBSIDY RATE

Subsidy rate per DC-3 available seat-mile at system density factors from 4.75 to 8 departures per station per day<sup>1</sup> for subsidy operations effective July 1, 1963

	0.00	0.01	0.02	0.03	0.04	0.05	0.06	0.07	0.08	0.09
	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents
4.7	2.7342	2.7229	2.7117	2.7004	2.6891	2.7905	2.7792	2.7679	2.7567	2.7454
4.8	2.6216	2.6103	2.5991	2.5878	2.5765	2.6779	2.6666	2.6554	2.6441	2.6328
4.9	2.5090	2.5062	2.5035	2.5008	2.4980	2.5993	2.5965	2.5938	2.5910	2.5883
5.0	2.4815	2.4788	2.4760	2.4732	2.4705	2.4678	2.4650	2.4623	2.4595	2.4567
5.1	2.4540	2.4513	2.4485	2.4458	2.4430	2.4402	2.4375	2.4348	2.4321	2.4293
5.2	2.4265	2.4238	2.4210	2.4183	2.4156	2.4128	2.4100	2.4073	2.4045	2.4018
5.3	2.3991	2.3963	2.3935	2.3908	2.3880	2.3853	2.3826	2.3798	2.3770	2.3743
5.4	2.3715	2.3688	2.3661	2.3633	2.3605	2.3578	2.3551	2.3523	2.3496	2.3468
5.5	2.3441	2.3413	2.3386	2.3359	2.3331	2.3303	2.3276	2.3248	2.3221	2.3194
5.6	2.3166	2.3138	2.3111	2.3083	2.3056	2.3029	2.3001	2.2973	2.2946	2.2918
5.7	2.2891	2.2864	2.2836	2.2808	2.2781	2.2753	2.2726	2.2699	2.2671	2.2644
5.8	2.2616	2.2588	2.2562	2.2534	2.2506	2.2479	2.2451	2.2423	2.2396	2.2369
5.9	2.2341	2.2313	2.2286	2.2259	2.2231	2.2203	2.2176	2.2148	2.2121	2.2094
6.0	2.2101	2.2073	2.2046	2.2018	2.1991	2.1963	2.1936	2.1908	2.1881	2.1854
6.1	2.1861	2.1833	2.1806	2.1778	2.1751	2.1723	2.1696	2.1668	2.1641	2.1614
6.2	2.1621	2.1593	2.1566	2.1538	2.1511	2.1483	2.1456	2.1428	2.1401	2.1374
6.3	2.1381	2.1353	2.1326	2.1298	2.1271	2.1243	2.1216	2.1188	2.1161	2.1134
6.4	2.1141	2.1113	2.1086	2.1058	2.1031	2.1003	2.0976	2.0948	2.0921	2.0894
6.5	2.0902	2.0874	2.0847	2.0819	2.0792	2.0764	2.0737	2.0709	2.0682	2.0655
6.6	2.0662	2.0634	2.0607	2.0579	2.0552	2.0524	2.0497	2.0469	2.0442	2.0415
6.7	2.0422	2.0394	2.0367	2.0339	2.0312	2.0284	2.0257	2.0229	2.0202	2.0175
6.8	2.0182	2.0154	2.0127	2.0099	2.0072	2.0044	2.0017	1.9989	1.9962	1.9935
6.9	1.9942	1.9914	1.9887	1.9859	1.9832	1.9804	1.9777	1.9749	1.9722	1.9695
7.0	1.9713	1.9685	1.9658	1.9630	1.9603	1.9575	1.9548	1.9520	1.9493	1.9466
7.1	1.9441	1.9413	1.9386	1.9358	1.9331	1.9303	1.9276	1.9248	1.9221	1.9194
7.2	1.9255	1.9227	1.9200	1.9172	1.9145	1.9117	1.9090	1.9062	1.9035	1.9008
7.3	1.9026	1.8998	1.8971	1.8943	1.8916	1.8888	1.8861	1.8833	1.8806	1.8779
7.4	1.8796	1.8768	1.8741	1.8713	1.8686	1.8658	1.8631	1.8603	1.8576	1.8549
7.5	1.8567	1.8539	1.8512	1.8484	1.8457	1.8429	1.8402	1.8374	1.8347	1.8320
7.6	1.8337	1.8310	1.8282	1.8255	1.8227	1.8200	1.8172	1.8145	1.8118	1.8091
7.7	1.8108	1.8080	1.8053	1.8025	1.8000	1.7971	1.7944	1.7916	1.7889	1.7862
7.8	1.7879	1.7851	1.7824	1.7796	1.7769	1.7742	1.7714	1.7687	1.7660	1.7633
7.9	1.7650	1.7622	1.7595	1.7567	1.7540	1.7512	1.7485	1.7457	1.7430	1.7403
8.0 <sup>2</sup>	1.7403	1.7375	1.7348	1.7320	1.7293	1.7265	1.7238	1.7210	1.7183	1.7156

<sup>1</sup> Based on the average number of stations served reduced by 1.

<sup>2</sup> For density factors less than 4.75 the rate shall be 2.7905 cents per available seat-mile.

<sup>3</sup> The rate for density factors above 8 departures per station per day shall be computed by multiplying the rate of 1.7650 cents by the ratio of 8 to such density factor above 8.



*Subsidy rate per all other available seat-mile<sup>1</sup> at system density factors from 4.75 to 8 departures per station per day<sup>2</sup> for subsidy operations effective July 1, 1963*

	0.00	0.01	0.02	0.03	0.04	0.05	0.06	0.07	0.08	0.09
	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents
4.7						1.9030	1.8970	1.8908	1.8848	1.8787
4.8	1.8727	1.8666	1.8605	1.8545	1.8484	1.8423	1.8363	1.8302	1.8242	1.8180
4.9	1.8120	1.8060	1.7999	1.7938	1.7877	1.7817	1.7757	1.7695	1.7635	1.7574
5.0	1.7514	1.7497	1.7481	1.7464	1.7448	1.7431	1.7415	1.7398	1.7381	1.7366
5.1	1.7349	1.7332	1.7315	1.7299	1.7283	1.7266	1.7250	1.7233	1.7216	1.7201
5.2	1.7184	1.7167	1.7150	1.7134	1.7118	1.7101	1.7085	1.7068	1.7052	1.7035
5.3	1.7019	1.7002	1.6985	1.6970	1.6953	1.6936	1.6919	1.6903	1.6887	1.6870
5.4	1.6854	1.6837	1.6820	1.6804	1.6788	1.6771	1.6754	1.6738	1.6722	1.6705
5.5	1.6688	1.6672	1.6655	1.6639	1.6623	1.6606	1.6589	1.6574	1.6557	1.6540
5.6	1.6523	1.6507	1.6491	1.6474	1.6458	1.6441	1.6424	1.6408	1.6392	1.6375
5.7	1.6358	1.6342	1.6326	1.6309	1.6292	1.6276	1.6259	1.6243	1.6227	1.6210
5.8	1.6193	1.6176	1.6161	1.6144	1.6127	1.6111	1.6095	1.6078	1.6062	1.6045
5.9	1.6028	1.6012	1.5996	1.5979	1.5962	1.5946	1.5930	1.5913	1.5896	1.5880
6.0	1.5863	1.5849	1.5835	1.5820	1.5805	1.5791	1.5776	1.5763	1.5748	1.5733
6.1	1.5719	1.5704	1.5690	1.5676	1.5661	1.5646	1.5632	1.5617	1.5603	1.5589
6.2	1.5574	1.5560	1.5545	1.5531	1.5517	1.5502	1.5487	1.5473	1.5458	1.5444
6.3	1.5430	1.5415	1.5401	1.5386	1.5372	1.5358	1.5343	1.5328	1.5314	1.5299
6.4	1.5285	1.5271	1.5256	1.5241	1.5227	1.5213	1.5199	1.5184	1.5169	1.5155
6.5	1.5140	1.5126	1.5112	1.5097	1.5082	1.5068	1.5054	1.5040	1.5025	1.5010
6.6	1.4996	1.4981	1.4967	1.4953	1.4938	1.4923	1.4909	1.4895	1.4880	1.4866
6.7	1.4851	1.4837	1.4822	1.4808	1.4794	1.4779	1.4764	1.4750	1.4736	1.4721
6.8	1.4707	1.4692	1.4678	1.4663	1.4649	1.4635	1.4620	1.4605	1.4591	1.4577
6.9	1.4562	1.4548	1.4533	1.4518	1.4504	1.4490	1.4476	1.4461	1.4446	1.4432
7.0	1.4418	1.4405	1.4392	1.4379	1.4366	1.4353	1.4340	1.4328	1.4315	1.4302
7.1	1.4289	1.4276	1.4263	1.4252	1.4239	1.4226	1.4213	1.4200	1.4187	1.4175
7.2	1.4162	1.4149	1.4136	1.4123	1.4110	1.4098	1.4085	1.4072	1.4059	1.4046
7.3	1.4033	1.4020	1.4008	1.3995	1.3982	1.3969	1.3956	1.3943	1.3932	1.3919
7.4	1.3906	1.3893	1.3880	1.3867	1.3855	1.3842	1.3829	1.3816	1.3803	1.3790
7.5	1.3778	1.3765	1.3752	1.3739	1.3726	1.3713	1.3700	1.3688	1.3675	1.3662
7.6	1.3649	1.3636	1.3623	1.3612	1.3599	1.3586	1.3573	1.3560	1.3547	1.3535
7.7	1.3522	1.3509	1.3496	1.3483	1.3470	1.3458	1.3445	1.3432	1.3419	1.3406
7.8	1.3393	1.3380	1.3368	1.3355	1.3342	1.3329	1.3316	1.3303	1.3292	1.3279
7.9	1.3266	1.3253	1.3240	1.3227	1.3215	1.3202	1.3189	1.3176	1.3163	1.3150
8.0 <sup>4</sup>	1.3137									

<sup>1</sup> Per available seat-mile flown on aircraft currently operated by the local service carriers other than DC-8.

<sup>2</sup> Based on average number of stations served reduced by 1.

<sup>3</sup> For density factors less than 4.75 the rate shall be 1.903 cents per available seat-mile.

<sup>4</sup> The rate for density factors above 8 departures per station per day shall be computed by multiplying the rate of 1.3137 cents by the ratio of 8 to such density factor above 8.

#### APPENDIX G-3

*Local service class subsidy rate—Rate scale for subsidy reduction per available seat-mile*

Departures per station per day:	Reduction per excess ASM <sup>1</sup> (cents)
8	0
9	.2
10	.4
11	.6
12 and over	.8

<sup>1</sup> For fractional departures the rate shall be computed by interpolation between the rates shown on the scale above.

## APPENDIX H

Local service class subsidy rate—Comparisons of selected data domestic trunk and local service carriers, year ended June 30, 1963

Carrier	Overall revenue, ton-miles	Revenue passenger-miles	Revenue passenger-origina-tions	Average number of revenue passen-gers per aircraft	Average number of available seats per aircraft	Daily route turnover	Overall flight stage length	On-line passen-ger trip length	Route-mile-days	Revenue passenger-miles per route-mile per day	Invest-ment	Total operating revenues	Total operating expenses
	Thousands	Thousands	Thousands								Thousands	Thousands	Thousands
Trunks, domestic operations:													
American	782,154	6,235,997	7,948	54.5	91.6	49.01	442.3	784.5	2,601,452	2,492.8	\$438,967	\$440,179	\$418,626
Brantiff	126,097	1,101,550	2,303	37.3	96.5	18.82	243.8	478.3	1,935,995	500.1	66,445	81,028	75,346
Continental	50,657	898,496	1,241	37.3	78.0	16.09	258.1	608.9	1,527,890	888.1	61,030	83,966	59,989
Delta	265,828	2,372,065	3,732	44.1	78.0	18.03	256.0	632.2	3,033,951	781.8	96,665	108,339	152,171
Eastern	473,023	4,339,470	8,335	39.2	76.0	38.33	252.2	520.6	2,932,750	1,479.7	266,261	1,280,329	303,471
National	132,823	1,344,496	1,841	47.1	70.4	13.38	236.9	730.2	1,800,677	616.5	66,149	88,853	83,389
Northeast	75,761	728,787	1,533	34.6	71.1	25.01	230.6	408.4	892,779	816.3	13,632	49,890	59,404
Northwest	154,283	1,309,651	1,863	43.1	84.3	17.20	354.3	703.1	1,776,075	737.4	100,231	91,063	87,547
TWA	508,852	4,957,552	4,763	51.4	95.3	34.41	328.8	916.8	2,533,000	1,720.3	289,189	289,752	317,272
United	901,320	7,847,009	11,402	46.0	84.6	48.22	347.3	691.9	3,562,555	2,118.5	459,736	534,968	536,494
Western	113,631	1,078,711	1,836	49.1	91.2	13.25	298.6	587.5	1,658,603	650.4	60,732	72,741	66,396
Total	3,653,439	31,313,633	46,927	45.9	84.4	28.80	335.1	667.3	24,535,329	1,276.3	1,909,027	2,172,844	2,159,645
Local service:													
Allegheny	19,813	187,220	890	18.3	42.8	14.61	110.8	210.4	701,866	266.7	13,060	21,958	20,572
Bonanza	9,113	91,747	362	19.4	38.0	7.11	126.6	253.6	664,200	138.1	7,296	9,941	8,607
Central	6,552	61,226	322	9.3	24.5	6.15	84.9	272.7	1,070,910	57.2	1,311	6,396	9,137
Frontier	10,438	98,768	352	10.2	28.1	8.17	105.5	272.0	1,823,030	52.5	3,917	15,116	14,493
Lake Central	7,244	68,140	431	10.4	28.5	8.12	74.7	138.2	807,319	84.4	5,037	10,563	10,487
Mohawk	19,038	188,270	422	19.6	43.0	12.88	104.7	203.1	766,900	242.9	9,253	21,207	20,541
North Central	11,649	185,660	1,013	12.8	29.5	9.22	82.4	183.5	1,653,648	113.8	5,589	26,073	24,727
Ozark	19,780	183,690	447	20.1	41.3	8.91	88.6	181.4	1,049,012	104.9	3,161	13,962	13,175
Pacific	10,228	102,947	441	12.2	26.9	8.37	100.9	231.6	611,831	168.3	7,483	11,274	10,440
Piedmont	11,721	115,977	547	14.5	32.2	7.95	83.4	208.2	737,759	154.5	9,134	14,900	13,511
Southern	8,341	77,902	452	14.4	27.5	7.96	83.8	180.3	1,100,564	70.8	3,134	11,968	11,207
Trans-Texas	8,731	81,460	347	10.4	29.2	7.73	98.3	234.7	1,010,987	80.6	2,744	11,032	10,697
West Coast	9,393	92,752	389	13.6	32.3	5.59	92.3	244.4	1,219,796	76.0	5,820	12,469	11,199
Total	132,050	1,455,380	7,029	13.6	32.4	8.11	92.7	207.1	13,197,822	110.3	76,909	189,898	178,763
High trunk carrier	901,320	7,847,009	11,402	46.0	84.6	48.22	347.3	691.9	3,562,555	2,118.5	459,736	534,968	536,494
Low trunk carrier	75,761	728,787	1,533	34.6	71.1	13.25	298.6	587.5	1,658,603	650.4	60,732	72,741	66,396
High local service carrier	19,813	187,220	890	18.3	42.8	14.61	110.8	210.4	701,866	266.7	13,060	21,958	20,572
Low local service carrier	6,552	61,226	322	9.3	24.5	6.15	84.9	272.7	1,070,910	57.2	1,311	6,396	9,137

<sup>1</sup> Data for Eastern excludes mutual aid pact revenues. Net income after special items and income taxes includes charges representing an adjustment in depreciation on DC-7B aircraft as follows: Domestic operations, year ended June 30, 1962, —\$2,386,000.



Order No. E-19340

UNITED STATES OF AMERICA, CIVIL AERONAUTICS BOARD

WASHINGTON, D.C.

Adopted by the Civil Aeronautics Board at its office in Washington, D.C., on the  
1st day of March, 1963

Docket 14080

*In the Matter of the Investigation of the Local Service Class Subsidy Rate*

## ORDER TO SHOW CAUSE

The Board having considered all of the information and data set forth or specifically referred to in the Statement of Provisional Findings and Conclusions<sup>1</sup> (hereinafter referred to as the "Statement"), which is attached hereto and incorporated herein, and having on the basis thereof made the provisional findings and conclusions and determined the rates specified in the Statement;

IT IS ORDERED, That each of the parties to these proceedings is directed to show cause why the Board should not adopt the rates specified in the Statement as the fair and reasonable rates of compensation to be paid for the transportation of mail by aircraft, the facilities used and useful therefor, and the services connected therewith over the entire system of each carrier party to these proceedings.

IT IS FURTHER ORDERED, That all further procedure herein shall be in accordance with the Rules of Practice, particularly Rule 302, *et seq.*, and if there is any objection to the rates specified in the Statement, notice thereof shall be filed within 10 days, and, if notice is filed, written answer and supporting documents shall be filed within 30 days, after the date of service of this Order.

IT IS FURTHER ORDERED, That if notice of objection is not filed within 10 days, or if notice is filed, answer is not filed within 30 days, after service of this Order, all parties shall be deemed to have waived the right to a hearing and all other procedural steps short of a final decision by the Board, and the Board may enter an order fixing the rates specified in the Statement; *Provided*, that if notice of objection and answer are filed by any carrier or carriers, the Board may enter an order fixing the rates specified in the Statement for such carriers as have not filed notice of objection or, having filed such notice, have not filed timely answer.

IT IS FURTHER ORDERED, That this Order and the attached Statement of Provisional Findings and Conclusions be served upon all parties to this proceeding.

By the Civil Aeronautics Board:

[SEAL]

HAROLD R. SANDERSON, *Secretary.*

<sup>1</sup> All forms, reports, schedules, and tariffs filed with the Board by each of the carrier parties to these proceedings, to the date of the Board's final decision, and the official mileage record of the Board, are incorporated into the record of these proceedings.

Order No. E-19404

UNITED STATES OF AMERICA, CIVIL AERONAUTICS BOARD

WASHINGTON, D.C.

Adopted by the Civil Aeronautics Board at its office in Washington, D.C.,  
on the 22nd day of March, 1963

Docket 14080

*Investigation of the Local Service Class Subsidy Rate*

## ORDER DENYING PETITION FOR LEAVE TO INTERVENE

On March 11, 1963, the State of California by its Governor filed a petition for leave to intervene<sup>1</sup> (hereinafter called the "Petition") in the subject proceeding and a notice of objection (hereinafter called the "Objection") to Order E-19340.<sup>2</sup>

Basically, the grounds set forth in the petition are as follows:

1. A major number of smaller California communities are served by Pacific Air Lines and West Coast Airlines.

2. The revised class subsidy rate provides Pacific with \$600,000 less subsidy for calendar year 1962 than the approximate gross subsidy paid the carrier during that year under the original class rate, and, as a result, Pacific's services in California will be curtailed or eliminated during the current year.

3. The State objects to any diminution in its existing air service and, accordingly, objects to the revised class rate.

4. The State of California has a right to be made a party since the establishment of the revised class rate "will determine the relative proportion of subsidy to be received by the various sections of the country".

5. The State has a vital interest in the proceeding because the quantity and quality of local service in the State is directly dependent upon the amount of subsidy allocated the local carriers serving it.

6. The participation of the State will contribute to the development of a sound record and will serve the ends of justice without unduly enlarging issues or delaying disposition of this proceeding, and the State's interest will not be adequately protected by the existing parties.

The Board has given full consideration to the matters set forth in the Petition and finds as follows:

1. The Petitioner has not shown that it is entitled to intervene in this proceeding under Rule 15 of the Board's Rules of Practice.

2. Petitioner does not contend or show that it has a statutory right to be made a party to this proceeding.

3. Contrary to Petitioner's statement the revised class rate will not decrease the subsidy previously paid Pacific under the original class rate for calendar year 1962. The revised class rate proposed in Order E-19340 will be effective from January 1, 1963, forward and will not apply to periods prior to that date.

4. While the State of California's concern for the integrity of its local airline service is understandable, the diminution, curtailment, or elimination of any of this service is not at issue in the instant case. The issue involved here relates to the fair and reasonable subsidy rates for the 13 local service airlines. In this area the Board's determinations are controlled by the provisions of section 406

<sup>1</sup> The State failed to certify as required by rule 8 that the petition was served on the parties, and accordingly the petition is subject to dismissal. However, because the consequences of intervention are of particular importance in the administration of the subsidy provisions of the act, we are considering the merits of the matters presented.

<sup>2</sup> Order E-19340, Mar. 1, 1963, consisted of a statement of provisional findings and conclusions proposing an amended class subsidy rate for local service carriers and an order directing the parties to the proceeding to show cause why the Board should not adopt the rates set forth in the statement.



of the Federal Aviation Act which require that we fix subsidy rates which will meet the "need" of the various carriers for the purposes stated in the statute. While the service provided by the subsidized carriers is a factor in determining "need", as we found in the *Helicopter Operators Consolidated Mail Rate Proceeding*<sup>3</sup> any interest generated by this consideration is too remote to justify intervention by a state, a city or other community, in subsidy proceedings.

Although the revised class rate provides for a reduction in the annual level of subsidy as of July 1, 1963, this reduction is not predicated upon a decrease of service to the relatively smaller communities and such a diminution of service is not at issue in this case. At page 10 of the Statement of Provisional Findings and Conclusions the Board sets forth several factors which it anticipates will enable the carriers to provide necessary services within the framework of the reduced subsidy level. Four of the five factors listed do not relate to volume of service. Only one factor pertains to suspension and deletion of service, and that reflects the Board's anticipation that operating costs and subsidy need will decline as the result of the continuing implementation of our "use-it-or-lose-it" policy. However, this policy long antedates the class subsidy rate for local service carriers and is controlled by self-contained principles established at the time of its inception, not by the provisions of the class rate.

5. The issue which California seeks to raise as to the relative proportion of subsidy to be allocated to various sections of the country has not been a consideration in the determination of subsidy rates, and it is not a proper consideration in the instant proceeding. If the Board were to grant intervention in cases such as this to states and civic bodies on the grounds that such intervention was warranted in order to protect the interest of their geographic areas in the portion of subsidy to which they believe they are entitled, we would undoubtedly be besieged with a multitude of petitions to intervene. Subsidy proceedings would then become unmanageable in that they would be converted almost inevitably into area route proceedings, and the net effect would be an undue delay in the final determination under section 406 of the subsidy need of the various carriers.

The State of California has other, more direct, appropriate and effective vehicles for pursuing its interest in local air service in proceedings under section 401 and section 404(a) of the Act. In this connection we take official notice of the State of California's Senate Joint Resolution No. 7, dated January 31, 1963, which requests and authorizes the California Division of Aeronautics to intervene in a Board route proceeding involving local service to several California communities.

6. The participation of the State of California in this proceeding will not contribute to the development of a sound record, will serve to delay the proceeding and will unduly broaden the issues.

ACCORDINGLY, IT IS ORDERED:

That the petition of the State of California for leave to intervene be and it hereby is denied.<sup>4</sup>

By the Civil Aeronautics Board:

[SEAL]

HAROLD R. SANDERSON, *Secretary*.

(Whereupon, at 12:15 p.m., the subcommittee in the above-entitled matter recessed, to reconvene, Tuesday, August 27, 1963.)

<sup>3</sup> See Orders E-18682, Aug. 10, 1962, and E-19086, Dec. 10, 1962, in which the Board denied intervention to several civic parties under circumstances similar to those existing here.

<sup>4</sup> Since the petitioner does not have the status of a party herein, its notice of objection is being treated as a memorandum of opposition filed under rule 302 as required by rule 805(c).





## BALTIMORE-WASHINGTON AIRPORT USE

TUESDAY, AUGUST 26, 1963

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON TRANSPORTATION AND AERONAUTICS  
OF THE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,  
*Washington, D.C.*

The subcommittee met at 10 a.m., pursuant to recess, in room 1334, Longworth Building, Hon. Samuel N. Friedel presiding.

Mr. FRIEDEL. The subcommittee will now come to order.

There will be a continuation of the CAB hearing with reference to inadequacy, subsidies, and so forth.

Mr. Boyd, do you have a statement?

### STATEMENT OF HON. ALAN S. BOYD, CHAIRMAN, CIVIL AERONAUTICS BOARD—Resumed

Mr. BOYD. No, sir, I have no statement.

Mr. FRIEDEL. First I will call on Congressman Macdonald.

Mr. MACDONALD. Thank you, Mr. Chairman.

Mr. Boyd, it is a pleasure, to see you here this morning.

Mr. BOYD. Good morning, sir.

Mr. MACDONALD. At our last meeting, I think you took umbrage at the statements that people have been saying because of the control of your Board over airlines certain improper things have followed. I quite agree with you that there was no evidence nor have I ever seen anything improper which has followed from your control of the airlines. Although I don't think that you would dispute the fact that you do have, as was the quote given to you and which you repeated, "life and death power" over the operation of certain airlines. Isn't that correct?

Mr. BOYD. I think that is quite correct, yes, sir.

Mr. MACDONALD. It seems clear to me that you have more or less temporarily sounded—I hope temporarily—the death knell of an airline which operates out of my district and which serves and has long served the people of Boston and New England. Of course, I refer to the Board's decision of August 15 dealing with Northeast Airlines' certification to run south of New York. I intend to ask questions about Northeast, although the questions that I am really putting to you are much broader than that. In reading the decisions of the majority and minority, it seems to me that certain basic problems arose which would reflect, in my judgment, the philosophy of the Board. For my own edification as a member of the Transportation Subcommittee, I would like some clarification about it. In the

first part, August 15, I say parenthetically, seems to have been a very busy day for the Board. I have here in my hand a report to the President of the United States from the Board in response to a White House message which dealt with the whole national problem of transportation. You answered him on August 15 by saying that you were asking the Board to develop a step-by-step program with specific annual targets to assure sharp reductions of operating subsidies within periods to be established by the Board for each type of service or carrier. Also on August 15 you sent a memorandum to the members of this committee, and perhaps to other Congressmen, that you thought we would be interested in a report which you made dealing with subsidies paid through the Federal Government to these various air carriers. As I understand the President's message, he indicated a desire that wherever possible, subsidies should be either reduced or replaced in the transportation field and that you indeed had told him that this was the policy of the Board.

Then on that very same day, Chairman Boyd, you in a hearing on the Senate side, indicated to Northeast, that even though you were taking away the only moneymaking run they had going south of New York, their problem would not be catastrophic because you would give them a subsidy of approximately \$3.2 million a year. I was wondering how you could coincide the two positions taken on the same day.

Mr. BOYD. Well, I think you are talking about two different things, Mr. Macdonald. The report the Board made to the President to deal with the existing service of the subsidized carriers and it was in that framework that a subsidy reduction is contemplated as a result of several different factors which I am sure you are aware of. The Northeast Airlines situation was outside the scope of that study.

Mr. MACDONALD. For the reason that they were not at that time on subsidy; is that correct?

Mr. BOYD. That is correct.

Mr. MACDONALD. And if they had kept and would keep their run south of New York there would be no need for a subsidy, would there?

Mr. BOYD. That is certainly a matter of great debate, Mr. Macdonald, and that gets into the decision of the Board.

Mr. MACDONALD. Yes, of course, it does. That is exactly what I am saying, that on the one hand you came out with a statement that you would see to it that Northeast got a subsidy, and yet on the same day you said you would follow the President's directive and the policy of cutting back subsidies wherever possible. I say to you that if they kept the run south of New York there would be no need for a subsidy, and I base this on past performance, not my opinion. They have not been on a subsidy for a number of years. Isn't that a matter of record?

Mr. BOYD. Yes, it is a matter of record, and we are both talking now about the future, Mr. Macdonald, and it is obvious that you have drawn a conclusion and it is just as obvious from the Board's opinion that it drew a different conclusion.

Mr. MACDONALD. What conclusion did the three members of the Board reach? I know two members are solidly in favor of keeping Northeast there in one of the strongest opinions it has ever been my duty to read here as a member of this committee for the past 9 years.



Mr. BOYD. I would like to say as an aside on that point, Mr. Macdonald, that we have had discussions on this before. There have been court cases, and I think that one of the very well-settled rules of law is that where you have a majority and a minority when the action is taken by a majority of a duly constituted organization that is the action of the organization and it makes no difference whatsoever what the minority may think.

Now, to get to your question about the Board's decision, I can only tell you that the decision speaks for itself. I don't have a copy with me, but I will be glad to provide you with one.

Mr. MACDONALD. I just happen to have a copy of the very weighty, literally and figuratively, decision in which the majority sets forth their views and the minority sets forth their views, but I am not talking about the decision, Mr. Boyd. I understand very well that three people have said that this should not be, and unless it is reversed, that is the law. But what I am saying is how can you on the same day indicate to us that you are following the President's directive of preventing any line going on a subsidy wherever you can and yet on the same day announce to Northeast that they would be taken care of to the tune of \$3.7 million per year in subsidies. The very bare facts seem contradictory to me.

Mr. BOYD. In the first place, there is nothing in our study that says we are going to prevent carriers from going on subsidy wherever we can.

Mr. MACDONALD. Excuse me.

Mr. BOYD. I believe you said our report to the President said that we are going to keep carriers from going on subsidy.

Mr. MACDONALD. You were going to do everything in your power to follow the directive of the national transportation policy, which was to keep carriers off subsidy. That is what you said. That is not my opinion of what you said.

Mr. BOYD. That is not what the study said, Mr. Macdonald.

Mr. MACDONALD. Will you tell me what it does say? I have a copy here in my hand.

Mr. BOYD. Yes, sir.

I can only tell you my understanding of it, and it is that in April of 1962 the President addressed a message to the Congress dealing with transportation. In the course of that message he said that he was asking the Civil Aeronautics Board to prepare a study making recommendations for sharp reductions in subsidy over a period of time. He wanted that report by the end of June of 1963. The Board began working on that immediately after the President's message came out. We worked on it for approximately 14 months and submitted it by the end of June to the President. Obviously to us, at any rate, we had to deal with the situation as we knew it at that time. That situation was that there were 13 local service carriers on subsidy, 3 helicopter operators, about 9 Alaskan carriers, and 2 Hawaiian carriers. The framework of the study dealt only with those carriers then on subsidy. In the course of our report to the President we said the existing service of the presently subsidized carriers can be maintained at relatively the same rate with the following reductions in subsidy over a period of 5 years assuming that our projections are correct as to (A) cost, (B)

revenues, (C) the use it or lose it policy, and (D) the fruits of the regional airport policy.

Mr. MACDONALD. Yes, but none of that changes the fact, does it, Mr. Boyd, that up until the time of your decision Northeast was not on a subsidy?

Mr. BOYD. We have not questioned that now.

Mr. MACDONALD. Of course you can't question it because it is a fact, and isn't it a fact that at the hearings before the Senate subcommittee you indicated the problems Northeast is having in New England will be solved by you by making them a local carrier and they then will go on subsidy, whereas if you permitted them to keep their local operation and to keep the service that they had been so adequately giving to the people of the eastern seaboard they would not be on subsidy. I don't see how you can dare to dispute that fact. It is a fact.

Mr. BOYD. Well, I am not at all sure that when you are discussing the future, Mr. Macdonald, one can say that a fact is a fact when we don't know what is going to transpire.

Mr. MACDONALD. Excuse me, Mr. Boyd. Are you saying that the market between Boston, New York, and Miami is getting less every year? I think a chart will show that the number of passengers is increasing every year.

Mr. BOYD. No, sir; I have not said that.

Mr. MACDONALD. Then if they had their run to Miami and the revenues kept picking up, as they have been during the last years, how would they possibly go on subsidy when they have weathered some very hard times during the past years and have not asked for a subsidy?

Mr. BOYD. I can't tell you anything, Mr. Macdonald, other than you are getting back to the Board's views of the future as expressed in the Board's opinion and as to that "illogic," as I believe you characterized it, that's the way we happen to feel about it.

Mr. MACDONALD. We will drop the subsidy angle for a bit, but it is a fact that the Board's policy is to keep as many airlines off subsidy as it possibly can; is that correct?

Mr. BOYD. The policy of the Board is that we do not propose to subsidize trunk air carriers under present circumstances. I should say domestic trunk air carriers. I don't know that we have a stated definitive policy relative to international carriers, U.S.-flag carriers.

Mr. MACDONALD. It won't matter since I am not at this point interested in that, but the second kind of rule is that competition should be maintained in the public interest wherever possible. Isn't that a fact and a rule of thumb of the Board?

Mr. BOYD. No, sir; that is part of the Federal Aviation Act. That is in the declaration of policy.

Mr. MACDONALD. And you work closely with the FAA in this area; do you not?

Mr. BOYD. No. The FAA has not one thing to do with the Board's economic regulation of air carriers.

Mr. MACDONALD. Well, then, the entire economic regulation of air carriers is up to you?

Mr. BOYD. That is correct, sir.



Mr. MACDONALD. And is it not a tenet of the Board that competition should be maintained in the public interest wherever possible?

Mr. BOYD. The language of the statute, Mr. Macdonald, is competition to the extent necessary to provide public service.

Mr. MACDONALD. And the thinking behind that statute has been implemented by Board decisions in many cases; has it not?

Mr. BOYD. Yes, sir. I can only say I am sure that all of us, 25 people who have been members of the Board, have felt that, whatever their actions have been, they were consonant with the prescription of the statute.

Mr. MACDONALD. And in the event of lessening of competition don't you think that that has a bad effect on carriers in general?

Mr. BOYD. Obviously not.

Mr. MACDONALD. You did not feel that way during the Eastern-American contemplated merger, did you?

Mr. BOYD. Well, that is a difficult question to answer. Mr. Macdonald, because we did not issue an opinion in that case.

Mr. MACDONALD. Am I incorrect in believing that the Eastern so-called merger was turned down?

Mr. BOYD. No; you are correct.

Mr. MACDONALD. And was not one of the basic tenets of that decision that competition would result in a bad effect on the service given to people carried on that airline?

Mr. BOYD. No, sir. There was no decision rendered in that case. The case was disposed of by the Board granting a motion to dismiss the application filed by American Airlines.

Mr. MACDONALD. And you gave them no reason for the dismissal?

Mr. BOYD. That is correct, sir.

Mr. MACDONALD. Is that usual procedure?

Mr. BOYD. No, sir.

Mr. MACDONALD. Why was it an exception?

Mr. BOYD. The exception is very simple: The Board, had it rendered an opinion in the matter, would have rendered four opinions and this would have been beneficial to nobody, in our judgment. Therefore, we concluded that we would not put one out.

Mr. HEMPHILL. May I ask a question at this point?

Mr. MACDONALD. Yes.

Mr. HEMPHILL. Who petitioned for the dismissal?

Mr. BOYD. The applicant, American Airlines.

Mr. HEMPHILL. In other words, for what we would call in country law a voluntary nonsuit.

Mr. BOYD. That is correct.

Mr. HEMPHILL. Thank you.

Mr. MACDONALD. Is it not a fact, Mr. Boyd, that it has been a long-standing policy of the CAB to promote multicarrier competition where markets would support it?

Mr. BOYD. Yes, sir.

Mr. MACDONALD. And is it not a fact that in at least 12 cases which have been researched by my office, a third carrier has been added and kept in substantial markets?

Mr. BOYD. I don't have the figures, Mr. Macdonald, but I would not question your staff's research at all.

Mr. MACDONALD. In that case how do you account for the departure from Board policy by taking out a third carrier in the second largest market in the United States—the Boston-New York-Miami market?

Mr. BOYD. Mr. Macdonald, I can only refer you to the Board's opinion and I can assure you, sir, the Board's opinion states the real reasons for the Board's decision.

Mr. MACDONALD. I have read that opinion many times and with great interest because it affects a good deal of New England's industry, aside from the airline itself. It affects the lives of some 2,100 employees. I can also say to you I am not impune in your motives, as you indicated that you took umbrage at during the last meeting. When I say that having read it, I can't understand it because actually you have said two things. The three-man majority of the Board indicated that there was no need now for a third carrier and you said the financial aspects of Northeast was not the reason for your decision. Then the decision goes along for five or six pages detailing at great length, and with obviously a good deal of study having gone into it, the fact of Northeast's financial predicament. So you base it on the fact that there is no need now, and I never saw any other reference in the decision to what it now referred to. Does that mean August 15, 1963, or does it mean December of 1963, that a third carrier is not necessary?

Mr. BOYD. Well, I would say that the decision was issued on August 15 and certainly, as of August 15, that was the view of the majority of the Civil Aeronautics Board.

Mr. MACDONALD. Is that liable to change, Mr. Boyd?

Mr. BOYD. Well, this gets us into the question of what is possible, Mr. Macdonald, and I say anything is possible.

Mr. MACDONALD. Can you answer me a little more specifically? I know that anything is possible. Having read this decision I quite agree that anything within that Board is possible. When you say anything is possible, obviously anybody will agree with you, but I am saying is it possible in the very near future the Board will change its mind on this subject?

Mr. BOYD. Sure, it is possible. If you are asking me how I view this thing personally, I don't know that I am prepared to give you an answer because there will be, I presume, petitions for reconsideration filed.

Mr. MACDONALD. Would you say that this is an exceptional case where three carriers are not permitted to operate in the second largest market within the United States when in 13 other instances three carriers are able to operate with the sanction of the Board?

Mr. BOYD. Mr. Macdonald, I think one can characterize this case any way one wants to and I am in no position to dispute it, and if it will help any I will say clearly this is an exceptional case. I think it was an exceptional case that Northeast Airlines was given a certificate in the first place with a temporary life to it.

As I said over in the Senate hearings where we covered this same ground, I am opposed to temporary certificates for trunk carriers. I think it is a mistake. But that was an exceptional case. The fact of the matter is that the Board is at this moment engaged in investigations looking toward the elimination of third carrier competition in a



number of markets. I cannot say that this is a parallel situation because you can show me traffic-miles, and passenger-miles, and seat-miles and say, "Well, this is different." The fact is that these are smaller markets than the New York-Miami total market, sure; but in the international sphere the Board tried for years to have monopoly operations in various areas, figuring that was to the best interests of the U.S. Government to do so, and I am not prepared to accept that the Board in this case has gone completely off base and undertaken something that it has not done anywhere at any time before.

Mr. MACDONALD. As set out in the decision in the *Great Lakes-Southeast Service* case, which was settled by the CAB and is in the report, the citation being 27 CAB 829, the Board used this language which I think is very appropriate to this case:

We wish to reiterate one of our basic points as to the benefit of third carrier competition in a market of the size of the Chicago-Miami market. Such a market is of great economic importance to Delta and Eastern, as they allege; however, this fact in and of itself is not sufficient to insure—

and the Board underlined the word "insure"—

provision of the quantity and quality of service such a large market requires if its continued growth and development are to be fostered. Despite the carriers' contentions to the contrary, it is a fact that their past services have not fully met the reasonable demands of the traveling public. Even though the carriers may be able to provide a full pattern of competitive service now, we believe the authorization of a third competitive carrier is necessary to insure that result \* \* \* the presence of a third competitive carrier will operate to guarantee that ample service of the highest quality is always available.

In that particular case the market referred to is not as large as the market which you took Northeast out of. Would you like to comment on the political ability of the Board's reasoning in that case?

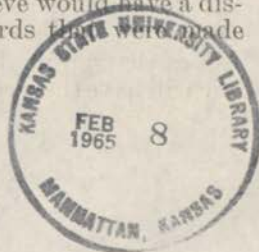
Mr. BOYD. Surely, I would be delighted, and I would like to make one thing very clear, Mr. Macdonald. We did not take Northeast out of any market. Northeast's term of life had expired and the question was whether we renewed Northeast's certificate, or whether we put some other carrier in from among those who had applied for that route, or whether we put no carrier in. Northeast's certificate had expired by its terms, and I think as a practical matter when you say we took Northeast out you are correct, but as a legal matter this was not the case.

Mr. MACDONALD. I won't split hairs with you. I would rather have some answers.

Mr. BOYD. Now on the philosophy of the Board, I would like to point out another thing that very few people seem to be giving much cognizance to and one which I have given some cognizance to, and that is that the three-carrier routes that you are talking about were, I believe, all granted at the time when the carriers were operating propeller, piston-engine aircraft and the capacity of the aircraft, the speed, and the service was considerably different. Since that time the trunk airlines have moved into jet operations. Their jets are bigger; they provide more capacity; and in many cases greater frequency than was true in the past. This is a factor which I believe would have a distinct bearing on some of the third carrier awards that were made during the period of the 1950's.

Mr. HEMPHILL. Would you yield?

Mr. MACDONALD. Yes.



Mr. HEMPHILL. I believe the experimental period was supposed to be 5 years, wasn't it?

Mr. BOYD. Yes, sir.

Mr. HEMPHILL. At any time during those 5 years was there any indication by the CAB to your knowledge that at the termination of the experimental period Northeast would either receive a renewal or a permanent certificate?

Mr. BOYD. No, sir; there was none.

Mr. HEMPHILL. Were there any press statements or anything that that would probably be the policy?

Mr. BOYD. No, sir.

Mr. MACDONALD. But it is the policy of the Board, is it not, to have three carriers wherever it is possible where the market will maintain it?

Mr. BOYD. Mr. Macdonald, it is the policy of the Board to have three carriers where, in the Board's judgment, that is in the public interest.

Mr. MACDONALD. Is it not in the public interest for New England and the rest of the eastern seaboard to have a third carrier to back up the bad service that had been furnished prior to the entrance into this market of the third carrier, namely, Northeast? Aren't you supposed to be defending the public right and interest?

Mr. BOYD. Yes, sir; and I think I am. I am not appearing here before you with any sense of shame.

Mr. MACDONALD. I know that and you have made your feelings clear and I don't think there is anything for you to be ashamed of. Anyone can make a mistake without being terribly ashamed.

Mr. BOYD. I will even admit to the possibility that I am wrong, but I have not been convinced of it at this moment.

Mr. MACDONALD. Obviously you voted to say that there was no need for a third carrier now?

Mr. BOYD. That is right.

Mr. MACDONALD. And I say to you that that is the basic thing in this whole decision because you have no guidelines as to what you mean by "now." It could change in 2 weeks. Obviously it is off season now. Come the full season in Miami, won't they need three carriers from New England and New York at that time and won't that be "now"?

Mr. BOYD. I don't think so.

Mr. MACDONALD. I believe you indicated and I will ask you to comment on the following: I have a statement that you gave in an interview to a gentleman who broadcasts for station WTVJ, channel 4, in Miami. I suppose you, being from Florida, are familiar with that station, are you not?

Mr. BOYD. Yes, sir. It is a Miami television station.

Mr. MACDONALD. He indicated on the broadcast of August 21 that—

The CAB Chairman, Alan Boyd, told me today that no body should give up hope for a third carrier service between Miami and New York. Boyd said that, although the CAB has terminated Northeast Airlines and suspended the third carrier route, this does not necessarily mean a permanent third carrier suspension. The CAB will keep close watch, he said, on the service provided by Eastern and National and their equipment and schedules between the two markets.

Does that mean that you are holding out hope to Northeast that they will have their certificate renewed?



Mr. BOYD. No, sir; I am not.

Mr. MACDONALD. Why do you say this does not necessarily mean suspension of a permanent third carrier and that nobody should give up hope? If nobody should give up hope, certainly it would be Northeast who should not give up hope because they held and ran their carriage in a very satisfactory way. No place in your decision have you ever said that Northeast service was not satisfactory.

Mr. BOYD. Mr. Macdonald, I certainly made that statement to Ralph Renick and I would make it again if called upon to do so without feeling—

Mr. MACDONALD. If you will excuse me, should Northeast give up hope for having this run renewed?

Mr. BOYD. I can't answer that question.

Mr. MACDONALD. You just said that you would answer the question.

Mr. BOYD. I can only tell you this. This is a very dynamic industry and a lot of hopes and a lot of the fears that were present in the industry in the late 1950's have been proved to be wrong. I don't pretend to be omniscient in any sense of the word.

Mr. MACDONALD. None of us are, but you act in an omnipotent way. You, as we both agreed, have the power of life and death over the families and jobs of 2,100 people. You are acting like God in that particular matter. Your vote is the one that put Northeast out of business, and that is a hard and clear fact.

Mr. BOYD. That is very true, but I do not want to assume any god-like aspects, Mr. Macdonald. I would like to make very clear that the Federal Aviation Act provides for five Board members who are appointed, and confirmed by the Senate, for one purpose and that is to make decisions, and that does not make you God if you make a decision. I could do one of two things in this case. I could have voted to renew Northeast or I could have voted not to renew Northeast. I had discretion. Discretion is a very weighty responsibility. I worked very diligently over this case and I came to an honest conclusion, and I don't feel any more than a mortal man by having done so.

Mr. MACDONALD. Right, sir, and I am going to yield because I don't mean to monopolize the time of this committee. I just have a couple of more questions and one a very basic one.

I don't understand, after having read and reread this decision, the real basis on which you voted. As you said you searched your conscience and made an honest decision, and I am sure all of that is true. But in reading and rereading the decision I cannot put my finger on what basis you cast your vote to kill Northeast.

Mr. KEITH. Mr. Chairman, would the gentleman yield?

Mr. MACDONALD. After I get an answer I certainly will.

Mr. KEITH. I have perhaps some light I can shed on the question.

Mr. MACDONALD. I will be happy to after his answer.

Mr. BOYD. I can only tell you, Mr. Macdonald, as poor as it is, my reasons are in the order.

Mr. MACDONALD. What are they?

Mr. BOYD. They are in the order.

Mr. MACDONALD. I have read the order. You say that a third carrier is not needed now.

Mr. BOYD. That is right, sir.

Mr. MACDONALD. And by that decision you hold out the hope to these 2,100 people that you are going to see the light, that Northeast is going back in.

Mr. BOYD. No.

Mr. MACDONALD. Did Northeast ever indicate to you that they were not capable of carrying on this run?

Mr. BOYD. You mean did they tell me that?

Mr. MACDONALD. Their record, that you, I am sure, scrutinized before you cast this very important decision.

Mr. BOYD. As a matter of fact, Mr. Macdonald, the examiner who heard this case in the first instance found that Northeast was financially unfit to continue operations.

Mr. MACDONALD. Then why did he vote to continue?

Mr. BOYD. He did not vote to continue Northeast, Mr. Macdonald. There is some misapprehension on your part if you think the examiner voted to continue Northeast Airlines. The examiner said Northeast Airlines is unfit. Therefore, Northeast Airlines should not be renewed.

Mr. MACDONALD. Then why didn't you adopt his reasoning and say they were unfit?

Mr. BOYD. I did not feel it was necessary to do that.

Mr. MACDONALD. Why? Either an airline is fit to continue a service or they are not. It is my impression that this airline was well run. They had no accidents. As a matter of fact, the irony is they were receiving an award for the safest trunk carrier airline during the week that their feet were cut out from under them.

Mr. BOYD. I would also like to say on that point, Mr. Macdonald, that we operate on the belief which is pretty well established, that all of the airlines are safe, and safety is not a factor.

Mr. MACDONALD. Some are safer than others I would think. Your accident record will show that.

Mr. BOYD. I think if you want to choose any particular year that is true. Some airlines have accidents in the course of a year and others do not but, over a period of time, it is our judgment that all of the airlines are as safe as they can humanly be made to be and, in any event, we do not consider safety matters in an economic case. That is the function of the Federal Aviation Agency.

Mr. FRIEDEL. Will the gentleman yield?

Mr. MACDONALD. Yes.

Mr. FRIEDEL. Mr. Boyd, when you said that the examiner said "unfit," you mean unfit financially?

Mr. BOYD. I said financially unfit. There has been no question about the competency of the management or of the personnel of Northeast Airlines. So far as I know they are fine and wonderful people, and I realize that it is very small comfort for me to say, after having kicked them in the solar plexus, I am sorry, but I am, and yet I do not believe that the Federal Aviation Act specifies that the Board's decision on route matters shall be decided on the basis of what impact the Board's decision may have on personnel.

Mr. KEITH. Mr. Chairman?

Mr. FRIEDEL. Mr. Keith.

Do you want to yield?

Mr. MACDONALD. Yes; I yield.



Mr. KEITH. At that point, you say on page 19 of the hearing report:

We cannot accept Northeast's argument that an established Board policy favoring multiple competition requires the continuation of three-carrier service in the East Coast-Florida market. The amount of competition that should be authorized in a given market does not turn on the number of carriers the Board may have authorized in some other markets but depends upon the specific facts and circumstances affecting the markets under consideration. We find here only that a third carrier is not needed at the present time in the East Coast-Florida markets.

Now, the real question that you have been working on, it seems to me, is that, when you are determining the carriers, you approach it from the wrong point of view. The question should not be how many are needed, but the question should be how many can it stand, and if you approach it from the basis of need, you are not helping the competition. If you approach it from the basis of how many can it stand, you have a positive point of view toward the free enterprise system, competition. One line conceivably could handle from the point of need all of the traffic between Miami and New York and Washington, but it could stand three. On that basis I think that we have a real argument as to the philosophy of those in the majority in this decision because it should be on the basis not of need, but how much can it stand. I would like your comment on that, if you would.

Mr. BOYD. I can only comment, Mr. Keith, that your point of view is a reasonable one and it is just not one that we operate on. I think if I could expand for a moment, first of all, the atmosphere in which this matter is being discussed seems to be one that assumes that if you have three carriers you have competition. If you have two carriers you don't have competition. I am not prepared to accept that.

Mr. KEITH. May I, at this point, ask if it would be more competitive with three than with two?

Mr. BOYD. Not necessarily.

Mr. KEITH. Generally speaking?

Mr. BOYD. Generally speaking, certainly I think it would, and this goes to my second point, and that is that the provision of the statute dealing with competition says "competition to the extent necessary." There is no question but what the framers of the Civil Aeronautics Act in 1938 tried to meld the best of two different worlds: One, the world of classic utility regulation which is generally a monopoly operation, telephone, power companies, et cetera; and the other, the world of free-running competition, and, as in most cases I think when you try to get the best of both worlds, you sometimes get some pretty ragged edges, and this may be one of the ragged edges we are sitting on at the moment.

Mr. KEITH. With reference to the amount of traffic that can be had on a particular line, the examiner found, and in my mind correctly—

That the addition of "fighting ships" by Eastern at that particular time was to reduce the load factor of all carriers in the market just prior to the hearing in this proceeding and further to weaken the Northeast's position.

If you are going to say that Northeast is financially incapable of assuming the burden of this traffic have you not some responsibility to make certain that cutthroat competition is not permitted to put Northeast in that embarrassing position?

Mr. BOYD. Surely.

Mr. KEITH. And what form does that supervision take?

Mr. BOYD. Well, as I said the other day, a great deal of the Board's jurisdiction is negative. We have currently before us a complaint of Northeast Airlines on this very point. The complaint was filed under the normal procedure and went to the Bureau of Enforcement under delegated authority. The Director of the Bureau of Enforcement examined the complaint and such supporting data as was presented with it and concluded that the complaint was groundless. He, therefore, dismissed the complaint. The carrier has appealed to the Board the Director's dismissal. We have not acted on that appeal.

Mr. KEITH. Should you not have a continuing kind of contact to make certain that these practices, which are on their face unfair and contrary to the public interest, don't have to be brought to your attention by the company concerned?

Mr. BOYD. Mr. Keith, this is a very difficult area. It has the same difficulties that we have found in connection with the problem of adequate service on the lower end of the scale and that is that there are no objective standards in the statute and it is not a clear-cut proposition where one can make a judgment and say  $x$  number of schedules are good and benefit the public and  $x$  plus one are too many and are being used as so-called fighting ships. The carriers who are accused of this—and this is not the first time this has happened—all have what could be construed as reasonable grounds for providing the frequencies they do, and absent some sort of objective standards it is extremely difficult for us to say  $x$  plus one is too many frequencies and is being used for unfair competition. What we are talking about is purely a matter of degree. If a community, for example, generates 100 passengers a day going, say, from this community to New York, and there are 2 carriers or 3 carriers competing for those 100 passengers and 1 carrier puts in 20 flights with a capacity of 135 passengers on each flight, then I think even the Board would feel that that was too much of a good thing.

Mr. KEITH. I would like to close by one further comment if I may.

Mr. FRIEDEL. We have to hear from some of the other members.

Mr. KEITH. May I make one further comment in closing?

Mr. FRIEDEL. Yes.

Mr. KEITH. I realize that you have this problem that you mentioned with reference to how much traffic can be carried between competing airlines and the possibility of fighting ships upsetting them, but you reached the decision there to leave it alone and yet with reference to the use of three lines, as contrasted to two, you used a little different logic, and it seems to me that in doing so you have really sounded the death penalty for Northeast. It is almost like a mercy killing for Northeast without the consent of the patient.

Thank you, Mr. Chairman.

Mr. FRIEDEL. Mr. Devine, any questions?

Mr. DEVINE. Yes, Mr. Chairman.

Mr. BOYD, all of us, of course, draw inferences from the spoken word and Mr. Macdonald cited apparently a television interview you had at some station in Miami in which you are quoted in effect as say-



ing that no one should give up hope for a possible third trunk carrier at some future time. When you make reference to no one I would presume that you are talking about the traveling public rather than carriers, is that correct?

Mr. BOYD. Actually, Mr. Devine, if I can set this in the context of the interview, I have had a number of letters, primarily from hotel interests in Miami and Miami Beach, and the tenor of the letters have been that "we are going to fall apart if we don't have three carriers," and my comment to Ralph Renick was this: First of all, I think that Miami is on a strong enough base that the difference between two and three carriers is not going to wreck the economy of Miami. Second, I think, as dynamic as this industry is, that no one should give up any hope that there might be a third carrier, and I was thinking primarily of the hotel people who had written me these tear-stained letters.

Mr. DEVINE. But not thinking primarily of the carriers?

Mr. BOYD. No, sir; I have no intention of leading Northeast on to believe that I am going to change my views about something new that was not in the record at the time the case was decided.

Mr. DEVINE. In view of the findings of your examiner that Northeast financially is unfit, presuming at some future time the Board in rehearing this matter or reexamining it would determine that there is and, in fact, a need for a third trunk carrier, that would not necessarily mean that it would be Northeast.

Mr. BOYD. Not at all. Northeast has no prior legal claim on this route. As a moral proposition I think that if there had been a third carrier put in, the normal tendency would have been to give Northeast a plus mark for the efforts it has made over the past 5 years, but as a legal proposition Northeast has no claim whatsoever.

Mr. DEVINE. There are other trunk carriers that have made bids for this run?

Mr. BOYD. Very definitely, yes, sir.

Mr. DEVINE. And in the event again the Board would see that there is an area for a third trunk carrier and you found some other carrier that is fit financially, notwithstanding the proper moral responsibility to Northeast, I would presume the Board would give consideration to the other carriers.

Mr. BOYD. Oh, surely, surely.

Mr. DEVINE. I think that is all, Mr. Chairman.

Mr. FRIEDEL. Mr. Hemphill.

Mr. HEMPHILL. Thank you, Mr. Chairman.

As I understand the legal situation now, since your Board has made a decision is there or is there not a motion for reconsideration pending before the CAB?

Mr. BOYD. I don't believe one has been filed yet, Mr. Hemphill, but the carrier has until, I believe, the fifth of September to file a petition for reconsideration.

Mr. HEMPHILL. What you are saying here today is that you are not passing on that motion at this time?

Mr. BOYD. No, sir.

Mr. HEMPHILL. Because you have a duty to give it the same fair consideration I think you gave the other one.

Mr. BOYD. That is correct.

Mr. HEMPHILL. You had a colloquy with Mr. Keith on the question of need and how much it can stand. As a general rule, when the Board makes a decision that the market has been saturated do they allow another carrier to go in under those circumstances?

Mr. BOYD. No, sir.

Mr. HEMPHILL. If I am asking you something that would in any way be improper in view of your duty to pass upon a motion for reconsideration if a petition were filed, please tell me so because I am a lawyer and I don't think that is proper and I know you don't. As I understand the history of this, in 1956 or thereabouts Northeast petitioned for a temporary certificate.

Mr. BOYD. They petitioned for a certificate.

Mr. HEMPHILL. A certificate. A temporary certificate was rendered.

Mr. BOYD. Yes, sir. Northeast on reconsideration raised no objection to the temporary nature of the certificate.

Mr. HEMPHILL. But that certificate was confined to this particular market, the Florida-east coast market?

Mr. BOYD. Yes, sir.

Mr. HEMPHILL. At that time was Northeast a trunkline, or what was it?

Mr. BOYD. It was a local service carrier.

Mr. HEMPHILL. Was it being subsidized at that time?

Mr. BOYD. Yes, sir; and, in fact, was subsidized for 2 years after the route was awarded on the basis of the judgment of the Board at that time, as I understand it, that it would take Northeast 2 years to get itself geared up for the Florida operation.

Mr. HEMPHILL. And was there a finding by your Board or was there testimony to the effect that after this temporary certificate was awarded they went into markets to buy airplanes to service the traffic?

Mr. BOYD. I don't know whether there was a finding to that effect, but we have common knowledge, if not judicial knowledge, that this was done.

Mr. HEMPHILL. Was this the only trunk carrier having a temporary certificate during that period?

Mr. BOYD. I believe so, Mr. Hemphill. I have a search going on now to ascertain whether there were any others operating under similar conditions. As far as I can ascertain, I am relatively sure that Northeast was the only trunk with a temporary certificate. There were other trunks operating portions of their system on exemptions.

Mr. HEMPHILL. The Board has made a decision by 3 to 2, as I understand. We have had the expression here that it would kill Northeast. As a matter of fact, what this does is return Northeast to a local service carrier?

Mr. BOYD. Yes, sir.

Mr. HEMPHILL. And there is no restriction on that, but there is a subsidy proposed of \$3.7 million. Was that the subsidy which was in effect at the time they were given this Florida-east coast certificate?

Mr. BOYD. No, sir. The subsidy in effect at that time was about \$2 million and the \$3.7 million figure that Mr. Macdonald has is the one that the Board has calculated on the basis of a current class rate



formula, and obviously we had to make a number of assumptions because there is a very real question, for example, as to whether or not the DC-6 is the right type of equipment to be utilized over the short haul segments that characterize the New England air network.

Mr. HEMPHILL. Did your Board make a finding that the two carriers which retained the right to service the same markets which Northeast has now been moved out of could give adequate service?

Mr. BOYD. Yes, sir.

Mr. HEMPHILL. Speaking of competition, would there be competition between those two lines?

Mr. BOYD. Yes, sir. I don't think anyone who is at all familiar with the aviation industry would question the validity of competition between National and Eastern who have been at each other's throats since they first started competing with each other.

Mr. MACDONALD. Would you yield at that point?

Mr. HEMPHILL. Certainly.

Mr. MACDONALD. The only thing is, Mr. Boyd, how many flights does National have going into Boston?

Mr. BOYD. I have no idea, Mr. Macdonald. I can provide you with that information.

Mr. MACDONALD. I think you will find that it is very, very few, and you say it is the consensus that there is a good deal of competition in that field. You speak as ex cathedra, you are the law, but I think that your feelings on this matter won't be reflected in the thinking of the people of New England who had to put up with the type of service they had prior to the third carrier's entrance into the field. When Eastern—and I am not picking on that airline particularly, but I know in the opinion of the majority—that Eastern's welfare keeps recurring throughout the opinion. What effect this decision is going to have on the welfare of Eastern, had the field preempted to the south the service that it gave and the people of New England received was certainly second rate. I am sure if you were a member of the Board during that period you must have gotten many irate letters about the lack of scheduling, and handling of baggage, and other service problems confronting any airline. These letters were the highest in the history of my office. In any event, when you say there is going to be adequate competition in that area, I think that the past history does not agree with you.

Mr. BOYD. I won't question that, Mr. Macdonald. I was not at the Board at that time. I was in even worse shape. I was a captive customer of Eastern and the service that Eastern provided during the early and middle fifties to my mind was absolutely lousy, and I think I am being kind to Eastern to say that. The facts are that both Eastern and National have had a complete change of management since the award to Northeast. Their equipment picture is completely different than it was then and I don't think that you can always go on the basis of past history.

Another point I would like to make is that the current management of Eastern has certainly shown in every way a tremendous effort to provide the best possible service to the public.

Mr. MACDONALD. When they are competing in a competitive market I would tend to agree with you. But you have to read past history

to at least have something better than an incident to base a decision on. I say that their past history is such that when they are in a non-competitive market their last interest is the passengers that they carry. This has been the history of Eastern in New England, and I think it will continue to be unless the decision is reversed or unless the CAB is much more diligent in its efforts than it was during the period to which we both have reference. Many people in New England, and I am sure I am speaking for New England because of the letters I receive, are quite fearful of a return to this state of affairs.

Are you finished?

Mr. HEMPHILL. No, but I would like to follow up what you said.

I have been a captive of Eastern too, so the three of us are in the same boat on this one issue. I want to ask you something about the basic philosophy. As I understand a certificate, it is not given unless, as you say, there is a necessity for the service. Is not that right, sir?

Mr. BOYD. That is right.

Mr. HEMPHILL. What obligation is there to make a stop which is not profitable? What obligation to the public? I asked Eastern to make a stop to put off some mail in Charolette, N.C., which would mean \$150,000 to \$200,000 a day to the business people in my section, and they said it would cost them money to stop and they let the public interest go to the Devil in that particular instance. What is the philosophy or the policy of the CAB with regard to instances like that?

Mr. BOYD. Mr. Hemphill, I think that it is a matter of law and that is that a carrier must serve every community to which it is certificated on the route over which it is certificated, but beyond that the law only says that the service shall be adequate and the law has provided us with no standards whatsoever as to what is adequate service. I am certain that there are communities in this country not getting adequate service.

Mr. FRIEDEL. Friendship is one of them.

Mr. MACDONALD. And Boston will be a second.

Mr. BOYD. We cannot make an airline stop on a particular flight. There is nothing in the law that gives us that authority. Through legal means we can force an airline to provide adequate service once we can figure out what is adequate service.

Mr. HEMPHILL. But beyond that they can skim the cream?

Mr. BOYD. That is right, sir.

Mr. HEMPHILL. And they do. Getting back to this particular matter, I believe you said that the Board in its decision did not consider as a determining factor of the majority opinion the financial unfitness which the hearing examiner had subscribed to Northeast, is that correct?

Mr. BOYD. That is right, sir. We did not feel, in view of our conclusion that three carriers were not needed at this time, that it was necessary for us to make a formal finding on the record as to financial fitness or unfitness of Northeast Airlines.

Mr. HEMPHILL. Was that considered?

Mr. BOYD. Yes, sir.

Mr. HEMPHILL. Did you also consider the financial difficulties Eastern had been having?

Mr. BOYD. Yes, sir, certainly. One thing that I am sure you gentlemen realize, and I don't quite know how to phrase this, is the Board has



a responsibility for an air transportation system in this country and we have to keep that in mind as we decide individual cases. We cannot close our minds to the fact that we are dealing with a system and not a single route, even though the case may involve a single route.

Mr. HEMPHILL. I believe you did say that in your personal opinion or the Board's opinion you were opposed to a temporary certificate for the trunk carriers.

Mr. BOYD. That is my personal opinion; yes, sir.

Mr. HEMPHILL. Was any policy such as that expressed in the majority opinion on this particular case?

Mr. BOYD. No, sir.

Mr. HEMPHILL. It was not?

Mr. BOYD. No, sir.

Mr. HEMPHILL. I certainly thank you, sir. I appreciate your patience with my questions.

Mr. BOYD. Thank you, Mr. Hemphill.

Mr. FRIEDEL. Mr. Bennett.

Mr. BENNETT. Mr. Boyd, I have no personal interest in this *North-east* case, but I must admit I was surprised when I read the paper about the Board's decision and I wondered at the time, not having read the decision, but merely having read the newspaper account of it, what the reasons were that prompted the Board to take off this third carrier. Are any of these carriers getting subsidy on the route that we are talking about?

Mr. BOYD. No, sir.

Mr. BENNETT. Then there is no Government money involved in the case, is there?

Mr. BOYD. No; except to the extent it may become necessary to subsidize Northeast.

Mr. BENNETT. I mean up to this point there is no subsidy involved?

Mr. BOYD. That is right, sir.

Mr. BENNETT. And is there any public interest involved? In your opinion is it in the public interest in any particular area or general public interest to take this carrier off this route?

Mr. BOYD. Mr. Bennett, we think that we are acting in the public interest, and this gets me back to the system that I was talking about. You can make all sorts of comparisons. You can find, for example, that United Air Lines is making a profit on its operations from San Francisco and Los Angeles to Honolulu and if you want to limit your consideration to San Francisco-Honolulu you say, "Well, United Air Lines ought to have two more competitors because they are doing so well," but the fact is that United Air Lines is also serving Yakima, Wash.

Mr. BENNETT. I don't want to get into the philosophy of this because I don't want to take the time. Let me ask you would the public be adversely affected had you renewed the certificate of Northeast?

Mr. BOYD. We think so.

Mr. BENNETT. Why? What was the complaint?

Mr. BOYD. We received more complaints about poor service in the New England area served by Northeast than we have from any other section of the country from the time that Northeast received its certificate to serve Florida. We see no possibility of Northeast improving its service to New England, in New England, if it were to maintain

a long-haul operation. We think certainly the public in New England is adversely affected.

Mr. BENNETT. Is that one of the principal reasons?

Mr. BOYD. Yes, sir; that is stated in the opinion.

Mr. BENNETT. Is either of the other carriers involved losing money on this route?

Mr. BOYD. I don't believe that either of them is losing money on the route; no.

Mr. BENNETT. Was Northeast losing money?

Mr. BOYD. Yes, sir.

Mr. BENNETT. On this route?

Mr. BOYD. Yes, sir.

Mr. BENNETT. What was their argument about? Were their stockholders willing to pick up the tab? I assume, since it is not on subsidy, it would be the stockholders paying the bill for this.

Mr. BOYD. Actually, I think it was the creditors rather than the stockholders.

Mr. BENNETT. Were the creditors willing to pick up the tab?

Mr. BOYD. That is a very highly debatable question. As I understand it, some of the creditors are going to take their equipment back the 11th of September, and others were prepared to take their equipment back at approximately the same date, which would have left Northeast, absent other arrangements that it might have made, and I don't know what it might have been able to do, bereft of long-haul aircraft and some short-haul aircraft.

Mr. MACDONALD. Would the gentleman yield?

Mr. BENNETT. Yes.

Mr. MACDONALD. That is only partially true, is not it, Mr. Boyd? Is it not a fact that the Hughes Tool Co. and Hughes being one of the biggest creditors, just 4 to 6 days before your final decision, was willing to invest another \$26 million in Northeast to keep it going?

Mr. BOYD. No, sir.

Mr. MACDONALD. That is not true?

Mr. BOYD. No, sir.

Mr. MACDONALD. I was told by the president of Northeast, as was every member of the New England delegation, that just 4 days before the final decision, Hughes had outstanding, \$26 million worth of debt, which it gave to Northeast—in other words, credited them with \$26 million. You say that is not a fact?

Mr. BOYD. No; I don't disagree with that statement at all, but that is not my view of an investment of an additional \$26 million.

Mr. MACDONALD. If your creditor is pressing you for \$26 million, which adds to your bad balance on the books, and the creditor says, "I will make you a present of this \$26 million," you don't think that that increases your assets or deducts from your debts, whichever way you want to look at it?

Mr. BOYD. It eliminated the debt of \$26 million; yes, sir.

Mr. MACDONALD. Did that not help clear up the financial picture of Northeast?

Mr. BOYD. Why, certainly it helped.

Mr. MACDONALD. I thought you indicated to Mr. Bennett in your answer that creditors were pressing him very hard.



Mr. BOYD. I made no such statement, Mr. Macdonald. I did not say this, but to be specific, it is my understanding that Vickers Corp. is going to reacquire its Viscount aircraft from Northeast on September 11. It is also my understanding that General Electric proposes to take its jet engines back sometime in September and that the Convair 880's owned by General Dynamics and leased to Northeast Airlines will also be taken back.

Mr. MACDONALD. Wasn't most of this financial trouble based on the fact that they were operating on a temporary certificate?

Mr. BOYD. That is what they say. I don't know.

Mr. MACDONALD. Is it not a fact with a temporary certificate that obviously you can't get long-term loans in the same way you can with a permanent certificate? And had they had a permanent certificate that nine-tenths of their financial troubles would have been resolved?

Mr. BOYD. I am not prepared to accept that, no, sir.

Mr. MACDONALD. I will make it as a statement and you can disagree with it, because it has been told to me by everybody who has any contact with this situation, and I think you being the man who cast the deciding vote should be aware of it.

Mr. BOYD. I am not prepared to disprove the statement because we are talking about what might happen and I can't say that, but I can say this: That certainly I accept that Northeast had to pay a higher interest rate for the money it borrowed than it might have had to pay had it possessed a permanent certificate. We are talking about the difference between I think at the outside of  $4\frac{1}{2}$  to 7 percent interest, and this does not add up anywhere near to \$40 million, which is what I understand Northeast has lost since 1956. There is just not that much involved, even though we are talking about fairly large sums of money.

Mr. MACDONALD. Hasn't Northeast made assurances to you that had the temporary certificate been continued in the light of their good service their financial problems would have mainly been solved?

Mr. BOYD. Mr. Macdonald, I will tell you one of the things that bore on my decision. I came to the Civil Aeronautics Board, November 15, 1959, and within 60 days I had my first contact with Northeast Airlines. The management came in. They were in terrible shape. They had their back to the wall and they had to have some money and the Hughes Tool Co. was willing to put some up, and this created problems because Hughes Tool Co. owned the majority of TWA stock. They needed immediate help to get approval from the Board for Hughes Tool Co. to lend the money. At that time they presented us with a pro forma profit and loss statement. They were currently losing at the rate of about \$3 to \$3 $\frac{1}{2}$  million a year. If we would approve this loan they were going to make \$7 million in 1960. In November of 1960 they came in and they had lost over \$5 million. They needed more money and they had a pro forma balance sheet and profit-and-loss statement.

If we would permit Hughes Tool Co. to lend them more money in 1961 they would make \$5 million. In 1961 their back was really to the wall. They lost more than they had anticipated they would earn and they needed more help, so we cleared the desks. We did a lot of things for them that to our mind were completely extraordinary

measures of relief. What did they do? They lost about \$7 million or more in 1962. This is 3 years in a row that these people in all sincerity have come in to see the Board and made recommendations about how much money they were going to make next year "if"—and as far as I am concerned you reach the end of the line. You make a decision, and I am frank to say that this bore on my judgment.

Mr. MACDONALD. Right, sir. In that regard, and then I will yield back to Mr. Bennett, and I appreciate your yielding to me, Mr. Bennett, if this is the real reason—

Mr. BOYD. That is not the real reason.

Mr. MACDONALD. You have just said that this bore on your mind when you made the decision.

Mr. BOYD. Absolutely.

Mr. MACDONALD. And yet the decision says nothing about that. The decision says that Northeast is not recertified because there is no need now, and I underline that "now," for a third carrier.

Mr. BOYD. That is right.

Mr. MACDONALD. Which is one of the reasons I could not understand your decision no matter how many times I read it. Either you did it because they are in bad financial shape, or you did it because there is no need for a third carrier, but you testified here today that their financial situation is the real reason.

Mr. BOYD. Mr. Macdonald, you are putting words in my mouth.

Mr. MACDONALD. I am trying not to. I am just trying to get why you did make the decision. Your written opinion says that the real reason for the decision is that there is no need now, and you never define the limitations of "now."

Mr. BOYD. That is right, sir.

Mr. MACDONALD. For a third carrier.

Mr. BOYD. That is right.

Mr. MACDONALD. But all day today you have been talking about the bad shape Northeast is in financially and how you get tired of their protestations that they would do better if you just gave them a little more time. You could probably build as good a case if you based it on the financial situation, but you did not do so and, therefore, all of us are confused as to the reason behind the decision. In your decision you keep talking about the adverse effect that the recertification of Northeast would have on Eastern Air Lines, and I very respectfully submit to you that this should not be the basis of any decision. The effect on a second carrier by the means of a third carrier in a market.

Mr. BOYD. Historically the Civil Aeronautics Board has dealt with route certifications on the basis of the effect on carriers. This has gone on for 25 years, which is the period of our existence, Mr. Macdonald, and if this is wrong I think that it would be very helpful if we got some sort of a mandate from the Congress telling us that our policy is wrong. There are two other points I would like to make in response to what you have said.

First, you made the statement that all day I have been talking about the poor financial conditions of Northeast Airlines. I submit, sir, that is incorrect. I did not raise this point at all. Questions have been asked of me and I have been trying to answer those questions to the best of my ability.



Secondly, you say that from my answers you now find the real reason is the financial difficulties of Northeast Airlines. I submit, sir, this is incorrect and I would like to say, furthermore, that having spent the last 31½ years of my life at the Civil Aeronautics Board dealing with nothing but civil aviation I do not have a single-track mind. There are factors which bear on my judgment in any matter and I do not believe for one minute that you would like me or any other Board member to say, "I am going to glue on to one point. Nothing that I know, nothing that I think, nothing that I have learned, is going to have any bearing on my judgment," that "I am going to live or die based on no need now."

Mr. MACDONALD. That is exactly what the decision said, Mr. Boyd. I am not saying that is how you should have made the decision. I am saying, after a very careful reading and rereading of this decision, that the decision is that there is no need now for a third carrier.

Mr. BOYD. That is right. That is absolutely correct, and it is for that reason I think the other factors are really not essential.

Mr. MACDONALD. If they are not essential why do you say that they had a bearing on your mind? and I quote you exactly.

Mr. BOYD. Because, when I look at a situation I try to give all of the thought and all of the knowledge that I have to bear on the subject.

Mr. FRIEDEL. Mr. Bennett.

Mr. MACDONALD. Thank you, Mr. Bennett.

Mr. BENNETT. As I indicated before, I have no personal interest in this matter and I am not criticizing your decision because I have not had an opportunity to carefully read it. But I say again, I was surprised by the decision because in a case where the public is not losing anything and the Government is not losing anything by a service of this type, it is hard for me to understand why it should be taken off.

Mr. BOYD. Mr. Bennett, I would like to point out again that we think the public is losing by virtue of Northeast's inability to provide service in New England.

Mr. BENNETT. You just got through saying a little while ago that when you were riding Eastern exclusively the service was lousy.

Mr. BOYD. That is right.

Mr. BENNETT. Yet the certificate of Eastern was not taken away on that basis.

Mr. BOYD. No, it was not because it was a permanent certificate, Mr. Bennett, and the Federal Aviation Act provides no method for revocation of a permanent certificate.

Mr. BENNETT. You mean they could take a public-be-darned attitude and be completely free?

Mr. BOYD. The language of the statute is that the Board may institute proceedings looking toward the revocation of a certificate of a carrier and that after being apprised of the charges and the findings of the Board in connection therewith the carrier has to be given a reasonable time to rectify whatever the findings of the Board are. This, in effect, means that we cannot revoke a certificate.

Mr. BENNETT. You could revoke it if they did not make the changes, couldn't you? Is that not right?

Mr. BOYD. Oh, certainly.

Mr. BENNETT. And in a case like this wouldn't there be a way without revoking the license, of having Northeast improve the service? I mean taking away a license is a drastic remedy in any instance, whether it is a television license, or a license to run a railroad, or whatever it happens to be.

Mr. BOYD. I quite share that view that it is a drastic thing, but I must point out to you, Mr. Bennett, whether it was wise or not, Northeast acquired a temporary certificate. The period of that certificate ran, and with the normal procedures of the Board the question was raised whether there should be a third carrier on the Florida-New York-Boston route, not whether Northeast should be renewed; whether there should be three carriers on that route.

Mr. BENNETT. The effect of your decision is that there is no need for three carriers.

Mr. BOYD. That is exactly right.

Mr. BENNETT. At the present time.

Mr. BOYD. That is right.

Mr. BENNETT. Will the effect of this be that the other two airlines will make more money as a result of their operations?

Mr. BOYD. Hopefully, yes, sir.

Mr. BENNETT. Is there any indication that the public will get better service over these routes with the third carrier out?

Mr. BOYD. I don't know that there is any indication that the public will get better service on the New York-Florida routes.

Mr. BENNETT. But the carriers will make more money?

Mr. BOYD. We hope so.

Mr. BENNETT. What about the public? Don't you think it is better for a person to have a choice of three airlines to go somewhere than two?

Mr. BOYD. Not necessarily; no. I don't think that generally holds.

Mr. BENNETT. The time factor alone, the schedule alone, it would be beneficial to the public, wouldn't it?

Mr. BOYD. No, sir. That is one of the disappointments about competition in the airline industry. The fact of the matter is that the competitive services all operate at the same time.

Mr. BENNETT. Whose fault is that?

Mr. BOYD. The carriers say it is the public's fault, because what they do is shift around until they find when the public wants to move. You can get four planes out of Atlanta for Washington at 12 o'clock noon. Then you can't get another one until I think 4 o'clock in the afternoon. The same thing for Chicago-Los Angeles. There are four competing airlines. They operate four flights nose to tail.

Mr. BENNETT. This decision is not based on the fact that the other two lines will be better off if there are only two operating, is it?

Mr. BOYD. No, it is not based on that fact, although we certainly hope that will happen, and as far as what the public benefit from them being better off is I can only say that in the long run if the two carriers operating are more profitable, then it will be necessary sometime for them to reduce their fares.

Mr. BENNETT. Then, if you followed that logic, if you reduce it to one carrier wouldn't he operate more profitably?

Mr. BOYD. Oh, I think so; yes, sir.



Mr. BENNETT. Are you giving thought to reducing this to one carrier?

Mr. BOYD. No, sir.

Mr. BENNETT. That is the thought that occurs to me as to how far you have gone in this area. In eliminating competition, if it is desirable in this case, if it is beneficial, and you say desirable, for the remaining two carriers to make more money, because of the third carrier being eliminated. If you follow that logic, you could also take the second carrier off and leave one there, and then you have a monopoly situation again. While it is true that the remaining carrier would make more money, it is also true that the public would probably get inferior service. Is that not a fair assumption?

Mr. BOYD. Not necessarily, although I think generally that seems to be the case. If you are at all interested in my personal philosophy about this I will be glad to give it to you, and that is that as I read the Federal Aviation Act, as it refers to competition to the extent necessary, my own view is that the public is going to be best served by quality of competition rather than using quantity as the standard, and I feel that the public is well served in this country if the majority of the routes have two-carrier competition and the competition is of good quality. It would give me no problem whatsoever, and I have made no secret of this. I have been completely open in my statements on this matter. This is the way I feel.

Mr. BENNETT. Would it give you a problem if you reduced it to one?

Mr. BOYD. Over routes that can provide sufficient traffic for more than one, no, I think there should be two, and in many cases I think that three are all right. I do feel this, though: That in some of the smaller traffic markets there should be a monopoly operation.

Mr. BENNETT. What I am really interested in this morning is not Northeast, although I see a possibility of some serious problems resulting if the Board follows this philosophy of cutting down competing services because the fewer you have, the stronger you make the ones that remain.

Mr. BOYD. You have to do a balancing.

Mr. BENNETT. What I wanted to ask you about really this morning was something concerning local service lines, which are of more personal concern to me because their lines serve the district I represent. Our people are concerned about the recent decision—I guess it was a decision of the Board—with respect to cutting down subsidy for local feeder lines. Am I right? Was it a decision?

Mr. BOYD. It was a study which was adopted by the Board; yes, sir.

Mr. BENNETT. So it is in effect a decision?

Mr. BOYD. It is in effect a decision.

Mr. BENNETT. What is the basis in as short an answer as you can give for cutting the subsidy to these feeder airlines?

Mr. BOYD. The shortest answer I can give you is that we feel that revenues will grow faster than costs.

Mr. BENNETT. To the feeder airlines?

Mr. BOYD. Yes, sir.

Mr. BENNETT. What will be the effect of this rule or decision of yourself in respect to the service that is now being provided by local service carriers? Will it serve to impair the service or curtail it? Will it cut

down the number of flights that are now available on the routes covered by these local feeder airlines?

Mr. BOYD. I can't give you a blanket answer, Mr. Bennett. It will cut down the flights in the high-density operations and provide a minimum of two flights in the thin area, so, in some cases, there will be an increase in flights and in other areas there will be a decrease.

Mr. BENNETT. Effective September 1, one of the flights going into Houghton, Mich., will be reduced. I don't know whether you are familiar with that area or not. There are presently three flights a day, three in-and-out flights, and I understand that as a result of this decision the number of flights will be reduced to two. Could that flow from your decision?

Mr. BOYD. That is possible; yes, sir.

Mr. BENNETT. To what extent will further curtailment be made?

Mr. BOYD. This study provides for two at the bottom and seven at the top.

Mr. BENNETT. What do you mean by that?

Mr. BOYD. With subsidy being paid for a minimum of two flights and maximum of seven, depending on the traffic. The study itself is really an expression of the Board's views as to what will happen in given areas. The application of subsidy payment comes through what we call a class rate formula, which is applied to all 13 local service carriers.

Mr. BENNETT. Is this rule to be applied uniformly to all local service carriers?

Mr. BOYD. Yes, sir.

Mr. BENNETT. And it will provide a minimum of two flights at each airport now being served?

Mr. BOYD. That is the general policy. There are certain areas, Mr. Bennett, where the service is provided only because the community is isolated, and has no means of public transport, and has no traffic to speak of, where there will be only one flight a day or, in some cases, there may be only three or four flights a week, but this is merely to provide a link with the outside world of public transportation. However, generally there will be two.

Mr. BENNETT. You say that this policy will result in the local feeder airlines making more money and being able to give better service?

Mr. BOYD. No; I don't know that it will.

Mr. BENNETT. I thought that was the short answer you gave me.

Mr. BOYD. I said that we think the revenues there will increase faster than their costs.

Mr. BENNETT. In other words, they will make more money?

Mr. BOYD. Not necessarily, because we are reducing the subsidy.

Mr. BENNETT. They will make less.

Mr. BOYD. We would like to hold them about where they are.

Mr. BENNETT. At least Government expense?

Mr. BOYD. Yes, sir.

Mr. BENNETT. Is it your feeling, or is it the Board's feeling that the local lines now are operating scheduled flights in and out where they are not necessary?

Mr. BOYD. In some communities; yes, sir. We have what we call a use-it-or-lose-it policy and we have a rule of thumb, which is not scientific, but it is that if a station does not generate five passengers



a day, then it is highly questionable that there is any public convenience and necessity shown for the service.

Mr. BENNETT. That increases the subsidy?

Mr. BOYD. That is right, and without any commensurate public benefit if the service is not being utilized.

Mr. BENNETT. That is all.

Mr. FRIEDEL. Mr. Nelsen.

Mr. NELSEN. At the conclusion of the hearing the other day I supplied a statement for the record of which I gave you a copy and also submitted nine questions dealing with the subsidy program specifically as it relates to North Central Airlines which serves Mr. Bennett's area and the only airline serving many of the parts of my State. These smaller feeder-line services—and I attended the hearing in the caucus room in the House of Representatives—it was my understanding that this so-called new subsidy program for local service airlines for the intermediate-sized communities was being revised, although the thing that disturbs me is the fact that, presently, North Central Airlines has been notified that subsidies are to be cut back before this new policy goes into effect. As a result of this cutback, all of these smaller intermediate-sized communities in my area have now been cut back to one flight a day. The thing that seems to me a little inconsistent is the fact that, while under the policy statement of the CAB, they feel that two flights a day is a necessity to keep an air terminal and an airport going. At the same time this cutback now presents a period in between that is quite disastrous. I pick up the local paper and read about Federal funds going into this little terminal here or there and at the same time the subsidy is cut back, which almost neutralizes the effectiveness of the airline in this particular community.

Going back to the statements on the floor relative to the incorporation, I think if you will read the colloquy on the floor, Chairman Thomas pointed out that money would be available to do an adequate job in keeping with congressional intent. My purpose is not to level any abuse on the CAB at all. I think the CAB has attempted in this case to follow congressional directives. It is my hope, however, that we could speed up the application of this new policy so that there would not be too great a gap between the present operation and the application of the new policy. In my judgment, if I understand it correctly, this would reinstate service to these communities, and there are many of them. I have talked to our congressional delegation from Minnesota. Winona has been affected. Thief River Falls has been affected, Fairmont, Mankato, Worthington, and I believe that you are to be lauded for your objective. I do question, however, the gap in between and I wonder if there is anything that we can do or you could do to speed it up. As I understand the purpose of the hearing in the caucus room was to reveal the plan and to expect or hope for congressional support for the plan.

Mr. BOYD. Yes, sir.

Mr. NELSEN. I would like to aid in that objective that was cited in the hearing and I would like to have your comment relative to the problem that I cite.

Mr. BOYD. I think I can answer it this way, Mr. Nelsen. We have requested the presidents and the financial vice presidents of all of the local service carriers to meet with the Board in the immediate future to

discuss the effect of this policy on their operations and to ascertain how we can get this matter initiated at the earliest possible moment. We have some measure of control over the scheduling of the local service carriers. We don't have any over the trunks. I think that a number of the managements of local service carriers are probably taking action which they deem to be prudent at the moment without knowing exactly what the impact of this policy is going to be. Human nature being what it is, everybody figures that they are going to get hurt, and it is just a question of how bad before they really know what is involved.

Mr. NELSEN. Relative to that, I personally talked to the chairman of the board of North Central and he was not aware of this new policy and had not been advised of it. I actually sent him a copy of the statement that was presented in the caucus room. Were any of these feeder airlines advised of this move to head off what I think is a disastrous position and have they been consulted in any way at all?

Mr. BOYD. This study was provided to all the local service carriers immediately upon its release.

Mr. NELSEN. But prior to that there had been no consultation?

Mr. BOYD. No, sir; no, sir. We were in somewhat of a box because this was our report, but it was a report that was made specifically at the President's request.

Mr. NELSEN. It is my understanding that effective September 1, one flight a day goes into effect in the area that I speak of. In the event that this new policy goes into effect, how long would North Central need to reinstate this flight back through just the mechanics of operation to two flights a day? We are not asking for seven. We are happy to have two.

Mr. BOYD. I don't know how to answer that, Mr. Nelsen. I would have to provide you with an answer because I am just not sufficiently familiar with the operational problems and I don't know to what extent we are talking about a shift from summer to winter schedules either, which may be involved in this.

Mr. NELSEN. I see. My purpose mainly in bringing this to your attention is not one of criticism. It is with the hope that working with you we can speed up the new policy, the subsidy, which I think has merit, and also I do feel that in some of these intermediate-size communities, where we have put Federal funds into a terminal and an airport, and with many of the railroads presently not supplying passenger service, the natural next step would be more participation and the use of the airline. I hope we can have that in mind because I do believe that these communities will furnish adequate passenger service in the future to do what I am sure you want to do, and I know we want to do.

Mr. BOYD. Yes, sir.

Mr. NELSEN. Hopeful of the fact that finally subsidy will not be necessary, so if there is anything we can do and if you have any further information for me let me know. I have been told the answers to the questions that I have submitted would be supplied to me sometime today.

I thank you very much.

Mr. BOYD. Yes, sir.



Mr. NELSEN. I can appreciate the hot seat that you are on. I used to run a downtown agency and I have been in that witness chair myself.

Thank you.

Mr. BOYD. Thank you, sir.

Mr. FRIEDEL. Mr. Keith. Will you limit it to 5 minutes?

Mr. KEITH. Yes.

Thank you, Mr. Chairman. If you concluded, Mr. Boyd, in 1961 and 1962 that it was good public policy to permit Northeast to continue you must have considered the alternate course of not wanting them to continue and concluded that the adverse factors were outweighed by the positive decision which you reached. One of the factors that you did consider, of course, was the question of service to the public, but one of the adverse factors that you must take into consideration now is this subsidy of \$3.7 million. You have imposed upon the Federal Government an obligation to subsidize Northeast's New England route. It seems to me that most adverse of all factors is the loss that is going to take place by the Northeast stockholders and creditors because they are geared to long-run operations. If they only have the New England operation, the jets and the DC-6's are of no value and they will have to sell them at a forced sale or let the creditors take them over. This is why Northeast would have to go bankrupt, because their equipment, generally speaking, is of no value in the New England route. Isn't that true?

Mr. BOYD. Their equipment is certainly not the most adequate for the New England regional service.

Mr. KEITH. It is a very grim picture and their chance of being able to survive is almost nil if this decision stands.

Mr. BOYD. That I don't know.

Mr. KEITH. Perhaps as a halfway measure, if they could be certificated for the Washington and Philadelphia run, some of their equipment and some of their personnel could be saved. Have you given any consideration to this?

Mr. BOYD. I can only tell you, Mr. Keith, in that connection that the records shows that the run from Washington north has been one of the heaviest losers on the system of Northeast Airlines.

Mr. KEITH. Well, certainly the reduction in fares and the increase in service has given us superb service back and forth to Boston from Washington.

In conclusion, how can an industry be truly dynamic if they live in fear of the kind of bureaucratic control as has been revealed in this situation where you believe that generally speaking two competitors is enough. How will more people get into this? How will third carriers feel? How can they be truly dynamic if you are going to stabilize it as a two-carrier market?

Mr. BOYD. Let me say this.

First of all, I don't know that there are any adherents to my point of view at the Civil Aeronautics Board, but I stated I was expressing my personal philosophy. I have no idea that any of the other Board members share my views at all in this matter.

Secondly, as far as the bureaucratic action, we get right back, Mr. Keith, to the fact that somebody has to make decisions and they

either go one way or they go the other. All I can do is express my views, and I think for the benefit of the airlines who have great concern I can say very safely that I do not expect to live my life out at the Civil Aeronautics Board running them out of business.

Mr. KEITH. Thank you, Mr. Chairman.

Mr. FRIEDEL. Mr. Boyd, just for the record and this has something to do with Friendship Airport, at the last meeting I asked you a question about the possibility of issuing a directive that Friendship Airport serve both Washington and Baltimore and you said you were leaving town.

I don't know whether you had time to go into it or not. Do you have any answer to that today?

Mr. BOYD. No, sir. I find that the question that you raised has some very considerable legal complexities involved and it is being worked on at the moment and I will submit an answer to you just as soon as we can find an answer.

Mr. FRIEDEL. The only thing that I want you to keep in mind is that I think there has been some misinterpretation of your statement when you said that people who want to go to Washington will have to go to Dulles.

Mr. BOYD. I didn't make that statement.

Mr. FRIEDEL. That is being questioned and some of the airlines feel that they have to direct their people that way, and knowing that Dulles is 75 miles from Baltimore a lot of people have been inconvenienced and I hope that can be corrected and that anybody who wants to go to Friendship will know that it can serve Baltimore and Washington.

Mr. BOYD. Mr. Friedel, I am at the stage now where I don't know whether it is worse to be understood or misunderstood.

Mr. FRIEDEL. I know that you will do the right thing. There is no question in my mind you will try to have this one other thing corrected, and I hope it works out. In the meantime, I am going to turn this over to Congressman Macdonald.

Mr. MACDONALD. Mr. Chairman, just in the short time we have I would like to clear up a couple of things in my own mind. In answer to questions put to you by Mr. Bennett, you indicated that you thought that the public of New England would benefit by having Northeast just be a local carrier, and my question to you is if that is so, wouldn't it be peculiar to have all the Members of Congress from the New England States, the Senators and Representatives alike, take a directly different position than that which you advocate? Certainly they are closer and more responsible to the people of New England than the Board apparently is.

Mr. BOYD. I don't question that, that they are closer. The thing that I cannot climb around, Mr. Macdonald, is that neither they nor you have the responsibility for making this decision.

Mr. MACDONALD. I wish we did.

Mr. BOYD. I wish you did too, believe me. Nothing would please me more.

Mr. MACDONALD. Isn't it beyond the realm of possibility that perhaps at a later date we can get into just that? I would think that you would change your mind about the adverse effect on the public of New



England if their elected Representatives don't seem to think that this would help New England. As for the subsidy which you have held out with the "carrot" to Northeast, even that seems to have a dampener. You said that \$3.7 million would go to Northeast as a subsidy. Am I correct in my understanding that this would only go to them after they abandoned any hope to maintain their status as a trunkline?

Mr. BOYD. I believe that the statement is in the opinion.

Mr. MACDONALD. Do you have any idea of what is going to happen to the traveling public within New England during this hiatus if Northeast abandons its attempts to maintain its rightful run? When this transition takes place, as you say is being backed to the wall by creditors, but still the subsidy will not be forthcoming from the Government. This seems like a very disadvantageous position for the airline to me and one which I think you would have the responsibility of clearing up.

Mr. BOYD. The only thing that we can do, Mr. Macdonald, is to give assurances that service will continue.

Mr. MACDONALD. And how will you give those assurances?

Mr. BOYD. I so stated to the Senate Commerce Committee. Our staff has made arrangements with a number of carriers to provide service in the event that Northeast should decide either that it did not want to or was not able to provide service in New England.

Mr. MACDONALD. Do you think you can do it on the basis of temporary certificates?

Mr. BOYD. No; I think we would do it on the basis of exemptions.

Mr. MACDONALD. I was also interested in your attitude toward Eastern in this decision. All the way through the decision—I haven't counted them, I wish I had—there seems to be an underlying "light motif," to use the musical term, in which the emphasis on Eastern's position in this market seems to weigh very heavily on your mind.

You say on page 18 that East Coast-Florida markets have been the backbone of Eastern's system. You say at the time that the Board decided to give a temporary certificate to Northeast, Eastern was making money. A period to be in a strong position and, therefore, it was all right to give a certificate to Northeast since the strike and their loss of money you seem to feel that Eastern's position is the one that should be looked at in this field. I say to you that I think that that is not the intent of the act nor the intent behind the Board's decision. One airline's position should not overwhelm the position of another carrier which has proved its fight to operate in this field.

I would like you to comment on that if you care to.

Mr. BOYD. I will be glad to. What we are dealing with here is an air transport system for the United States. As I view this thing, Mr. Macdonald, the Board is engaged in a balancing act and we have reached a judgment on a balance that doesn't seem to coincide with your views. I think that there is some feeling that there is something magic about the existing number of air carriers and I don't share that view at all.

Mr. MACDONALD. I share that view with you, too, sir. I am talking about a specific run. Why should the interest that Eastern has in maintaining its position in the Boston-New York-Washington-Miami run be paramount in this decision?

Actually the decision relates specifically to Northeast and I would think that the majority of the Board would have joined with the minority and looked to its effect on Northeast, which is the carrier in question, not Eastern. Eastern you say can survive with a third carrier in the market.

Mr. BOYD. That is right.

Mr. MACDONALD. It survived in a similar market in the decision I read to you, which I am sure you are familiar with, the Chicago-Miami market.

Mr. BOYD. That is right.

Mr. MACDONALD. Why is the great emphasis put on Eastern's position?

Mr. BOYD. Well, in the simplest terms I can put it, Mr. Macdonald, Eastern was there before Northeast was there.

Mr. MACDONALD. Right, and I give full credit to Eastern for pioneering this market. They had a monopoly. They carried all the passengers to Florida but times have changed.

The American public's traveling habits have changed. Airlines have changed. And I don't think even you will say that the market won't support three carriers because it is the second largest market in the United States. Isn't that correct?

Mr. BOYD. Yes, sir; that is correct.

Mr. MACDONALD. If it is the second largest market in the United States and if 13 other small markets can support 3 airlines, why do you say that this run cannot support 3 airlines?

Mr. BOYD. I don't know that I have said that 13 other markets can support 3 airlines, Mr. Macdonald.

Mr. MACDONALD. I don't know if you have said it but the Board, in 13 separate cases, has at least 3 airlines in a smaller or similar market so you don't need to say it is. It is a fact of which I hope you are aware.

Mr. BOYD. Yes, sir; I think I am aware of it and I think we are plowing the same ground again that we were earlier this morning but, if I may reiterate, the decisions I believe involving three carriers were based on piston equipment and the type of operation that was involved at that time. It is open to question whether the Board today would award the same certificates if it had the opportunity to do it over again.

Mr. MACDONALD. By this do you say that Eastern is going to operate jet flights between Boston and Washington? It is my understanding—and I fly the flight twice a week—that there are not jet flights by Eastern to Washington. Eastern very smartly is cashing in on the fact that they have written these planes off.

They are absolute liabilities to them. I fly in planes of Eastern that I sometimes wonder if they would pass a very stringent safety test. They are old. I would think the number of miles that has been logged in them would be astronomical, so it seems to me sort of an evasive answer for you to say that the situation has changed, that now that the jets have arrived the whole situation is different. The fact of the matter is that jets are in existence, but they aren't being utilized on these particular runs to the exclusion of the piston-type operations, and you know that to be a fact.

Mr. BOYD. Mr. Macdonald, I was referring to the Board's certification of 3 carriers in the 13 markets which give you so much comfort.



Mr. MACDONALD. I will tell you, Mr. Boyd, that nothing gives me comfort in this situation, because I think a grave mistake has been made. I think that an airline has been put out of existence that should be in existence because of its record and I take very small comfort in the fact that other airlines have the blessing of the CAB to fly in markets that support them.

My point is that Northeast has not had the blessing and as a matter of fact has been gravely wounded by the CAB in saying that they can't fly in a market that will support three carriers.

Mr. BOYD. You are arguing with me about the decision, Mr. Macdonald, and—

Mr. MACDONALD. I am not arguing because I know that I can't argue with you, Mr. Boyd. As you say, you have given years of your life to the Board. You deal with this all the time. You are much more knowledgeable than I in the field and I admit that, so I am not arguing. I am merely commenting on some things that seem to me to be inconsistent. It isn't just a matter of Northeast, but the policies that you have announced in the decision and orally here today, go beyond Northeast, quite conceivably, which is one matter I hope to take up in executive session. This same thing could happen to airlines all over the country where the CAB could say, "Well, traditionally there have been three carriers in this field but I think that now we only need two." Where is it going to stop?

There are 2,100 families in my district who will be out of work for concrete examples. Is the philosophy that you expressed here today to take over at the Board? I understand there is some report circulating down there, and I would like confirmation as to whether or not this as a fact; a report called the Bluestone report that says the future of our airlines should be geared to two carriers in each market. Is that correct?

Mr. BOYD. That is correct, yes, sir. That is a staff report and the report says about two carriers as a general proposition, yes, sir.

Mr. MACDONALD. Isn't this in direct contradiction with the spirit and the legal reasoning behind previous decisions of the Board that competition should be maintained wherever the traffic will permit it and that competition is to be encouraged, not discouraged?

You said you were against monopoly. I will ask you are you against duopoly?

Mr. BOYD. No, I am not against duopoly. I think we are talking about oligopoly and I must reiterate that my view of the public benefit comes from the quality of competition, not the quantity of competition.

Mr. MACDONALD. Do you have any feeling that Northeast didn't help supply quality of competition in this run as well as quantity?

Mr. BOYD. Oh, I think it did, yes. I think Northeast is a fine operation, wonderful people, good airplanes. I would like to say one thing, Mr. Macdonald. You talked about Eastern Air Lines planes not being able to pass a safety inspection. This disturbs me.

Mr. MACDONALD. I didn't say that, sir. I know you don't have the safety regulations. They are before the FAA and I said that on boarding these planes many times I see the age of them and I as a layman and as a member of the traveling public wonder about the safety of these very ancient airplanes.

Mr. BOYD. I can assure you, sir, even though we don't have the safety responsibility, that there is not an airplane flying on the airline today that isn't as safe as human beings know how to make it.

Mr. MACDONALD. I am glad you brought that up because I won't want to leave the impression in the record that I am at all suspicious of the efficacy of the FAA. I have great respect for Mr. Halaby and the job that both the CAB and the FAA do in the field of safety. I am merely pointing out the fact that they are flying these old airplanes because of your constant repetition that it is a new ball game, that the jet era is upon us and perhaps the decision to let Northeast enter this market would not be the same had they had jets during that time.

I think that is an erroneous statement and I think that you will agree that I am entitled to at least my opinion of it.

Mr. BOYD. Oh, surely.

Mr. MACDONALD. In closing, and we are beyond the time limit and the House is in session, I would just like to ask you a question about this. Obviously, the economy of New England has been adversely affected by this decision. Our electronic plants and the public in general have been adversely affected in their ability to travel when and where they want to.

I think that there is no question since Northeast, according to many statements, may be out of business unless this decision is reversed, so, in general, everybody who touched this thing in New England has been adversely affected by your decision. I would like to ask you who has been benefited from the decision?

Mr. BOYD. Mr. Macdonald, the only thing I can say in response to your question is that I do not accept the underlying premise that everybody has been adversely affected.

Mr. MACDONALD. Would you say that the 2,100 families in the Greater Boston area have not been adversely affected when their jobs have been taken away from them?

Mr. BOYD. This is a figure that is being thrown around.

Mr. MACDONALD. It is not a figure being thrown around. It is a figure which was supplied for the record from the employment records of Northeast Airlines.

Mr. BOYD. I don't question there are 2,100 people who work for Northeast Airlines, Mr. Macdonald. I do question that there are 2,100 people working for Northeast Airlines who are going to lose their jobs.

Mr. MACDONALD. I know that a letter was written by Eastern Air Lines on August 14, the day before the decision we have been talking about, which was addressed to Senator Monroney, chairman of the Aviation Subcommittee, in which they said that Eastern Air Lines was prepared to employ such of Northeast's ground employees stationed south of New York as National Airlines may not hire. Do you have any idea how much that would be in the overall picture south of New York for the Northeast employees?

Mr. BOYD. No, sir, I don't.

Mr. MACDONALD. Well, it is a very small amount of the overall figure. And 25 percent of the estimated 800 Northeast ground employees based in Boston, roughly 200 people. I am further told that when applications have been made to Eastern Air Lines the people who made appli-



cation have been told that Eastern Air Lines themselves have people who have seniority with Eastern Air Lines who can't be employed in New England, so that seems rather meaningless.

And this makes the statement that 100 of the present Northeast pilots, provided they are still available, "Before we employ more than 100 of the 200 pilots we are still seeking at the final stage of our recruitment of pilots begun last spring."

Pilots tell me that it is perfectly meaningless because the pilots who have been flying get with the rules of seniority that govern those unions will go down perhaps to becoming copilots flying DC-3's. That seems like hardly a very likely solution that Eastern says they may hire 80 flight attendants. If you add all those up and take the employment rolls of Northeast, I think you will find that the dent made in the unemployed created by this decision will be very small. I would like to know if you have some information that some of us may have who are interested in this unemployment problem where these people are going to be employed.

Do you have any knowledge on this subject?

Mr. BOYD. No, I don't have any knowledge on the subject, Mr. Macdonald.

Mr. MACDONALD. Then why do you say that the figures are being thrown around of 2,100 which is not correct. It seems to me to be eminently correct.

Mr. BOYD. Because you are assuming that Northeast is closing its doors and going out of business, and I am not assuming that.

Mr. MACDONALD. We have just gone through the fact that the only moneymaking run they have is to Florida. That will be gone. You have been saying that creditors are pressing them, and I quote, that bore on your mind during the time, and I am sure troubled sometimes, you were making this decision. You further have said that as a local operation there will be subsidy, but there will be a hiatus period of some months before this subsidy will be forthcoming.

Mr. BOYD. I don't know that I said that, Mr. Macdonald.

Mr. MACDONALD. I asked you if that would be the fact and you said yes, there would be and that you would by exemption let other airlines fly the routes that Northeast was presently flying.

Mr. BOYD. I am glad you mentioned that because you completely misunderstood me and apparently I completely misunderstood you.

Mr. MACDONALD. Perhaps both of us.

Mr. BOYD. I understood you to ask me what would happen if there was a hiatus and I told you that we would see that service was provided. Now, you have assumed the hiatus. We have stated, if you will pardon me, sir, that we are prepared to pay Northeast a subsidy beginning any day.

Mr. MACDONALD. Any day before they give up their fight to keep the line?

Mr. BOYD. No, no.

Mr. MACDONALD. Isn't that holding a gun to their heads?

Mr. BOYD. It may well be. I don't know.

Mr. MACDONALD. You don't know? Won't the facts speak for themselves? When you say to Northeast, "You are entitled to subsidy and we will give it to you and we will give it to you the day that you stop your fight for existence as a paying airline and when

you stop being a paying airline and go back to being a local operated airline, we will give you a subsidy," do you think that Northeast or the creditors of Northeast should just throw in the towel at this point and stop there their fight to stay flying when they have served New England so well?

Mr. BOYD. No, I don't think I would say they should do that. I think they should make their own decisions. The best we can do is outline the rules of the game.

Mr. MACDONALD. Since you say this is such a dynamic industry, as I read the decisions of the Board this particular decision seems to indicate that perhaps the rules of the game have changed because the same criteria that have been used in other awards or certifications were not used in this particular case and that is the major disturbing factor.

I don't think the rules of the game as outlined in other cases were followed in this particular case, and for that I am sorry and I hope that we here in the Congress can do something to correct it. I know that it is a difficult job that you had, but many of us in public life have also very difficult decisions to make and it is part of the job. The people whom I really feel very sorry for in this matter, and I am not being a demigod in a cliché ridden speech, are not myself or any other public members from New England, but the 2,100 families who have been with this airline who have built up seniority, who have children, mortgages, and all the other things that human beings have as they develop families, and are suddenly confronted with an impasse, that the airline that they have given literally their life to in many cases, is suddenly by bureaucratic decree just swept from the board.

The airline is no more. What do you tell these people when they ask you why. I have been searching for a reason to tell them why and I can't find one, and I certainly don't blame you for it. I have read your decision. All I can tell them is that three people in Washington indicated that there was no need now for an airline flying to Florida, and that is small comfort to them, I assure you, Mr. Boyd.

Mr. BOYD. Mr. Macdonald, the system is your system. You, the Congress, set up the Civil Aeronautics Board and you, the Congress, provided that it would act by majority vote. This is not my system. I think that I share all of your concern about the welfare of folks who work for Northeast Airlines. I am a human being just like you. I have my obligations and I have carried them out as best I know how. The fact that there were 3 men or 90 men I don't think makes one bit of difference. This is the system of Government in the United States and to assume that there is something reprehensible because three men did something is to me utterly nonsensical, Mr. Macdonald.

Mr. MACDONALD. I don't think that you have heard the word "reprehensible" used in this room or by anybody else that I know that has been connected with this. If the shoe fits, I would say put it on if I wanted to argue with you, Mr. Boyd, but I won't say that. I haven't said that your actions have been reprehensible. That is none of my business. If there is anything that has been reprehensible, as the Congress set up your Board, it also set up a subcommittee within the jurisdiction of this committee called the Legislative Oversight Committee to oversee the work of the agencies which the Congress has set



up, and I am sure that if there is any evidence given to that committee that something reprehensible has happened, obviously the situation would be corrected, and, therefore, I can't subscribe to your statement that we feel that your actions have been reprehensible.

In closing, I would like to say just this: That I do think, however, that while the decision was perhaps not reprehensible, it did not follow the same criteria of other decisions in similar matters. That is the problem that sticks in my mind that needs to be solved. I don't understand why the same criteria was not followed. You have no comment, Mr. Boyd?

Mr. Boyd. No, sir. I would like to make one comment, and that is that I don't believe that it is to be expected that the Board is going to follow the same policies in 1970 with the supersonic transport that it did in 1938 with a DC-3 and I think that you can expect our policies to change from time to time and some of it is just the nature of the system. Every time we make a policy decision somebody gets hurt and somebody gains, and there is no way out of it.

The only way out of it is to just make no decision, but if we do that we are not doing our job.

Mr. MACDONALD. Thank you, Mr. Chairman.

The hearing is adjourned.

(Whereupon, at 12:20 p.m., the hearing was adjourned, subject to call of the Chair.)

